WELCOME TO THE EMPOWERED CLOUD

Better together: We're accelerating the power of AI for everyone.

SAS and Microsoft are joining forces to define the future of analytics in the cloud for our customers. This strategic partnership integrates SAS® analytics and AI with Microsoft cloud solutions: Azure, Microsoft 365, Dynamics 365 and Power Platform. Our shared vision enables customers to easily run their analytic workloads in the cloud to meet business goals faster and drive innovation cost-efficiently. Now our customers can unlock even more critical data insights on the path to digital transformation. It's time to reimagine analytics in the cloud.

sas.com/microsoft

SAS and all other SAS Institute Inc. product or service names are registered trademarks or trademarks of SAS Institute Inc. in the USA and other countries. ® indicates USA registration. Other brand and product names are trademarks of their respective companies. © 2021 SAS Institute Inc. All rights reserved. G149387.0121

Harvard Business Review

114 Designing the Hybrid Office

70 How Venture Capitalists Make Decisions

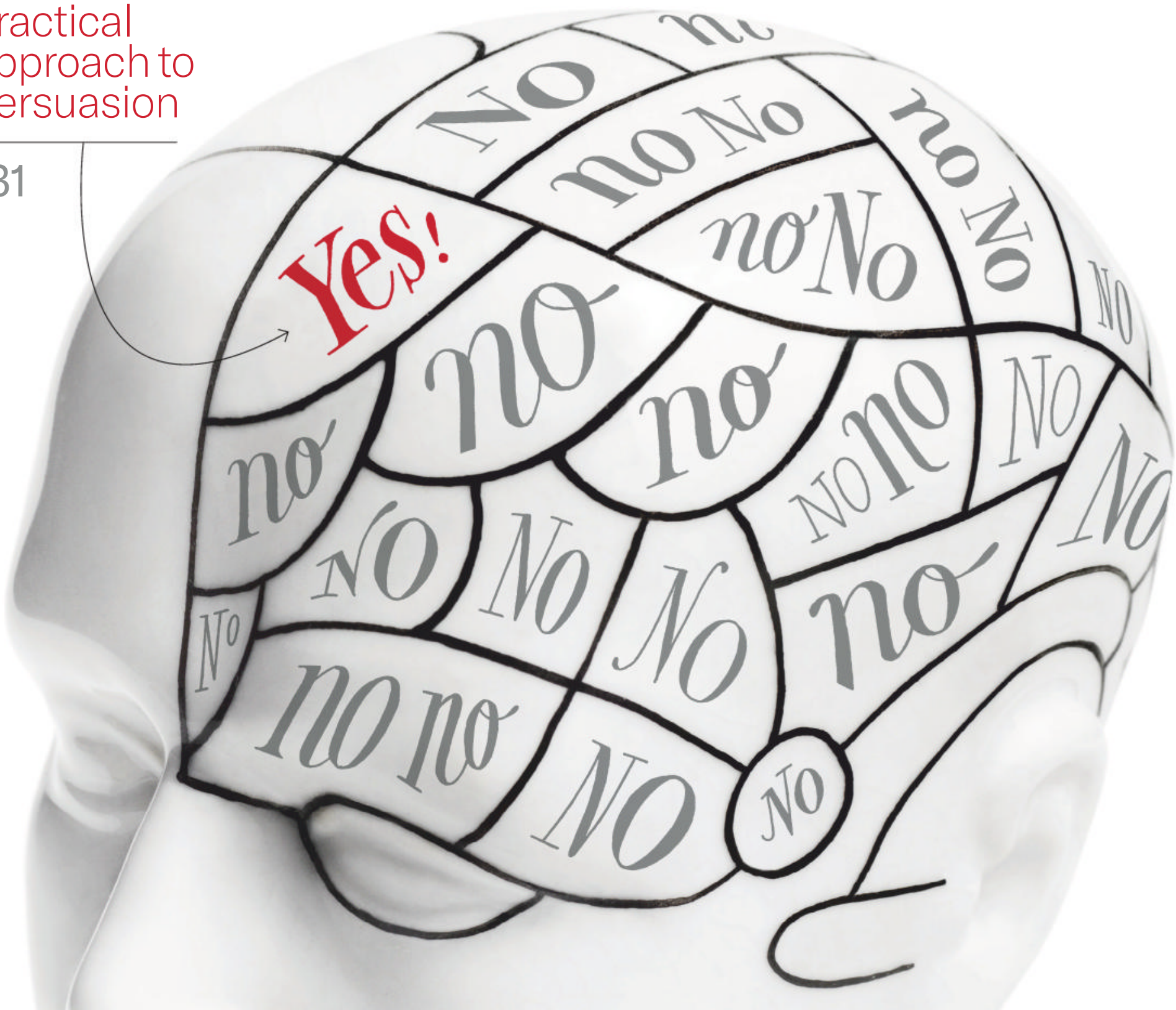
39 What Leaders Can Do to Drive Sales

HBR.ORG
March–April
2021

How to Change Anyone's Mind

A more practical approach to persuasion

131



Publicis EtNous

H24
A FRAGRANCE
BEYOND THE LINES
HERMÈS
PARIS
H24

SMEG

SMEG

SMEG

SMEG

SMEG

SMEG

smeg
technology with style

smeg.com

ENGINEERED TO
A HIGHER STANDARD

CLIMATE CONCIERGE

SHIATSU MASSAGE

HEAD-UP DISPLAY

THE HUMAN
STANDARD

Adjusts the temperature before you even realize you're cold.

Seven different massage settings to give you one moment of peace.

Gives you more than a glimpse—prepares you for what's ahead.

THE NEW LS—THE GREATEST EXPRESSION OF LEXUS

lexus.com/LS | #LexusLS

LEXUS
EXPERIENCE AMAZING

Options shown. ©2020 Lexus

Contents

March–April 2021

39
SPOTLIGHT
HOW LEADERS CAN DRIVE SALES

40 SALES
When CEOs Make Sales Calls
How top-management involvement in B2B relationships can drive—or kill—deals
Noel Capon and Christoph Senn

48 SALES
How to Shift from Selling Products to Selling Services
It takes different skills and a different focus.
Doug J. Chung

52 SALES
Selling After the Crisis
Senior executives must understand how dramatically the process needs to change.
Frank V. Cespedes

COVER PHOTOGRAPH
Peter Dazeley/Getty Images

HAND LETTERING
Leigh Wells

Illustration by **THOMAS HEINZ**

59 FEATURES

60 LEADING TEAMS
For an Agile Transformation, Choose the Right People
Identify your "hidden stars" and other vital players.
Rob Cross, Heidi K. Gardner, and Alia Crocker

70 ENTREPRENEURSHIP
How Venture Capitalists Make Decisions
An inside look at an opaque process
Paul Gompers et al.

80 LEADERSHIP
Are You Really Listening?
Senior leaders can become insulated from early signs of danger and opportunity. Here's how to overcome that.
Adam Bryant and Kevin Sharer

88 HUMAN RESOURCES
Turn Departing Employees into Loyal Alumni
A holistic approach to offboarding
Alison M. Dachner and Erin E. Makarius

98 MANAGING ORGANIZATIONS
What Professional Service Firms Must Do to Thrive
They have to tightly align their practices and clients.
Ashish Nanda and Das Narayandas

108 SOCIAL RESPONSIBILITY
Manage the Suppliers That Could Harm Your Brand
Know when to avoid, engage, or drop them.
Jodi L. Short and Michael W. Toffel

114 ORGANIZATIONAL CULTURE
Designing the Hybrid Office
From workplace to "culture space"
Anne-Laure Fayard, John Weeks, and Mahwesh Khan

124 SUSTAINABILITY
"It Will Need to Be the Most Amazing Thing Humankind Has Ever Done."
A conversation with Microsoft cofounder and philanthropist Bill Gates

Photograph by **TODD ANTONY**

UNLOCK YOUR FULL POTENTIAL

The Kellogg Executive MBA Program is designed for executive working professionals, with two prime U.S. locations and multiple schedules to suit your busy lifestyle. Whether you choose to attend class twice a month in Chicago or once a month in Miami, you'll receive the same world-class education, learn from Kellogg's leading faculty, join the same prestigious network and earn your MBA in two years.

Discover what a Kellogg Executive MBA can do for you. **kell.gg/EMBA**

KELLOGG EXECUTIVE MBA

CHICAGO | MIAMI

Northwestern Kellogg School of Management

March–April 2021

Our Commitment to Sustainability
We're proud that the paper we use in our print magazine is certified under the Sustainable Forestry Initiative® program, meaning that it comes from responsibly managed sources and is a renewable resource.

SUSTAINABLE FORESTRY INITIATIVE
Certified Sourcing
www.sfiprogram.org
SFI-00993

17 IDEA WATCH
New Research and Emerging Insights

17 HUMAN RESOURCES
Reengineering the Recruitment Process
PLUS Networking without dread, bankruptcy in the time of Covid, and more

30 DEFEND YOUR RESEARCH
Mocking Can Help an Initiative Succeed
The unexpected upside of humor

32 HOW WE DID IT
The Former and Current Chairs of Mastercard on Executing a Strategic CEO Succession
From the very first day of the new CEO's tenure, planning for his successor was in the air.
Richard Haythornthwaite and Ajay Banga

131 EXPERIENCE
Advice and Inspiration

131 MANAGING YOURSELF
Persuading the Unpersuadable
Lessons from science—and the people who were able to sway Steve Jobs
Adam Grant

136 CASE STUDY
Protect Your Company or Your Cousin?
A manager gets inside information that could affect the future of her firm.
Joseph L. Badaracco

142 SYNTHESIS
What Do We Like About WFH?
Evaluating the pros and cons
Vasundhara Sawhney

"The imminent CEO succession was our focus...but we also discussed the next one—before Ajay even had the job."
–RICHARD HAYTHORNTHWAITE AND AJAY BANGA

148 LIFE'S WORK
Takashi Murakami

DEPARTMENTS
10 FROM THE EDITOR
12 CONTRIBUTORS
144 EXECUTIVE SUMMARIES

David Vintiner (Haythornthwaite); Mackenzie Stroh (Banga)

There's never been a better time to move forward.

Delivering vaccines to millions of people in months, not years.

Reducing customer service response times from 2 days to 2 seconds.

Bringing groceries to your doorstep in under 30 minutes.

The right data is a springboard for leaders who want to bring their vision for their company to life faster, sooner.

Cloudera's enterprise data cloud platform helps our customers move their teams and their companies forward to thrive.

CLOUDERA
Data That Moves You

cloudera.com/datamovesyou
#datamovesyou

Connect with HBR

JOIN US ON SOCIAL MEDIA
WWW.HBR.ORG
TWITTER @HarvardBiz
FACEBOOK HBR, Harvard Business Review
LINKEDIN Harvard Business Review
INSTAGRAM harvard_business_review

CONTACT HBR
PHONE 800.988.0886
EMAIL editors@hbr.org
customerservice@hbr.org
designers@hbr.org
publishers@hbr.org

How to Tell a Know-It-All He's Wrong

Sasha Patkin

IN 2007, when I was an editor at *Time* magazine, Steve Jobs visited our office to give us a peek at Apple's newest gadget: the iPhone. We passed the device around the conference table carefully, as if it were a moon rock. When we handed it back to Jobs, he slam-dunked it on the floor to demonstrate its durability. Jobs knew how to win over a room—even in a small group, his confidence and showmanship were mesmerizing.

After that meeting—and again years later, when reading Walter Isaacson's biography of the Apple cofounder—I wondered what it must have been like to work for him. On one hand, what an opportunity to observe an extraordinary genius at close range. On the other, Jobs was a know-it-all and a bully, so how could subordinates possibly push back or persuade him when he was wrong?

In this issue's cover article, Wharton professor Adam Grant uses Jobs as an example to explain precisely how to do so. "Plenty of leaders are so sure of themselves that they reject good opinions and ideas from others and refuse to abandon their own bad ones," Grant writes. "The good news is that it is possible to get even the most overconfident, stubborn, narcissistic, and disagreeable people to open their minds." The article, adapted from Grant's new book, *Think Again,* outlines four strategies for doing just that.

In a world of entrenched partisanship, finding new ways to talk about disagreements is a skill that goes beyond management. I hope leaders everywhere will put Grant's advice into action.

ADI IGNATIUS
Editor in chief

Where we work. How we work.

It's never mattered more.

Leading organizations around the world trust us to help them create workplaces that are safe, productive, inspiring and adaptable with our architecture, furniture and technology solutions.

Whether you're back at the office or going back soon, find out how your workplace can work better for you and your organization.

Steelcase®

better.steelcase.com

© 2021 Steelcase Inc. All rights reserved. Trademarks contained herein are the property of Steelcase Inc. or of their respective owners.

Contributors

As a young lawyer, **Jodi L. Short** became interested in how businesses police themselves. In some areas, such as labor standards, companies in global supply chains aren't even subject to regulations; they create their own rules and privately monitor compliance with them. "Labor abuses in global supply chains are among the most pressing human-rights issues," says Short, now a professor at UC Hastings Law. That concern led her and her coauthor Michael W. Toffel to research how corporations can ensure that suppliers provide decent working conditions.

108 Manage the Suppliers That Could Harm Your Brand

Noel Capon recognized the importance of key-account management early on in his career as a Columbia Business School marketing professor. "I knew that corporations lived or died by their ability to attract, retain, and grow customers," he says. In 2009 he teamed up with Christoph Senn to create an executive ed program on global buyer-seller relationships. From its participants they gained insights into what drives successful relationships, which led to their article in this issue. "It was clear that a CEO's impact on the customer relationship can be enormous," Capon says, "but it must be carefully managed."

40 When CEOs Make Sales Calls

Ashish Nanda is fascinated by the way professional service firms formulate strategy. While it's a top-down exercise at most industrial and commercial companies, at law, accounting, and consulting firms and the like, strategy takes shape in the field, where a practice's capabilities meet clients' needs. Nanda, a senior lecturer at Harvard Business School, pairs his ideas with those of his HBS colleague Das Narayandas in this issue, describing a tool kit that firms can use to assess and strategically align their clients, capabilities, and talent.

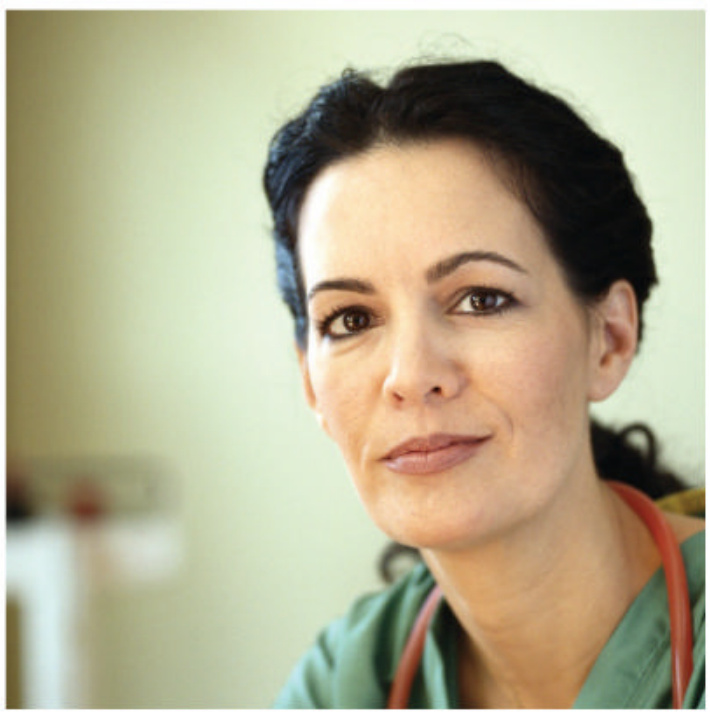
98 What Professional Service Firms Must Do to Thrive

A native of Paris, **Anne-Laure Fayard** was trained in philosophy and cognitive science and spent time at INSEAD's campuses in Fontainebleau and Singapore before moving to New York University, where she divides her time between the Tandon School of Engineering and the Stern School of Business. During a research assignment at one of France's largest air-traffic-control centers, she noticed the critical role that work space plays in effective collaboration. In this issue, Fayard and her coauthors explore how office design can support the postpandemic shift to hybrid work.

114 Designing the Hybrid Office

Todd Antony, a New Zealand–born, London-based photographer, refers to his work as "stylized realism." He notes: "I'm always looking for unique human-interest stories that are rarely told." His photos in this issue are from a series called *Climbing Cholitas*. "*Cholita* has been a pejorative term for the indigenous Aymara women of Bolivia, but these women are reclaiming it as a badge of honor," he says. His photos capture them climbing Mount Aconcagua, the highest peak in the Americas, wearing colorful, billowing skirts and carrying their gear in vibrantly patterned shawls.

60 For an Agile Transformation, Choose the Right People



Thank you for asking.

When you ask your people how they're doing, they feel more supported. And you'll have a guide to help them – and your organization – succeed.

The Glint People Success Platform delivers real-time insights that help organizations gain answers to the most important questions, and take the right actions to respond.

Learn more at glintinc.com

GLINT™

Your people at their best.

SPECIAL ISSUE

Keep your career moving.

You're working harder than ever, but will economic uncertainty block your career advancement? Or maybe you're worried about looming layoffs—or trying to bounce back from one.

Career resilience is about crafting your career so that you can keep pursuing your ambitions in tough times, and so you're perfectly poised to reinvent yourself when opportunity strikes.

We've collected the best, most relevant HBR articles to help you build that resilience. They'll keep you from feeling stalled in the moment and position you for growth as the crisis recedes.

Each quarterly *Harvard Business Review Special Issue* focuses on a single, timely theme and includes expert-authored articles from HBR's rich archives, along with concise article summaries.

Harvard Business Review

SPRING ISSUE AVAILABLE ON NEWSSTANDS AND AT HBR.ORG.

Harvard Business Review

EDITOR IN CHIEF Adi Ignatius

EDITOR, HBR
Amy Bernstein

EDITOR, HBR.ORG
Maureen Hoch

EDITORIAL DIRECTOR, HBR PRESS
Melinda Merino

CREATIVE DIRECTOR
John Korpics

EXECUTIVE EDITORS
Daniel McGinn
Sarah Moughty
Ania G. Wieckowski

EDITORIAL

SENIOR EDITORS Laura Amico, Alison Beard, Scott Berinato, David Champion *Paris,* Paige Cohen, Gretchen Gavett, Eben Harrell, Jeff Kehoe, Scott LaPierre, Toby Lester, Amy Meeker, Curt Nickisch, Steven Prokesch, Vasundhara Sawhney, Thomas Stackpole, Erica Truxler

MANAGING EDITOR, HBR PRESS Allison Peter

SENIOR ASSOCIATE EDITORS Courtney Cashman, Kevin Evers, Susan Francis, Dave Lievens

ASSOCIATE EDITORS Stefanie Fernández, Emma Waldman

ARTICLES EDITORS Christina Bortz, Susan Donovan, Martha Lee Spaulding

AUDIENCE ENGAGEMENT EDITOR Kelsey Gripenstraw

SENIOR AUDIO PRODUCERS Amanda Kersey, Anne Noyes Saini

MULTIMEDIA PRODUCER Andy Robinson

ASSISTANT EDITORS Ramsey Khabbaz, Rakshitha Ravishankar

EDITORIAL COORDINATORS Dagny Dukach, Alicyn Zall

STAFF ASSISTANT Christine C. Jack

CONTRIBUTING EDITORS Sarah Cliffe, Karen Dillon, Amy Gallo, Jane Heifetz, John Landry, Gardiner Morse, Andrew O'Connell, Anand P. Raman, Dana Rousmaniere

CONTRIBUTING STAFF Leslie Cauldwell, Kathryn K. Dahl, Sarabeth Fields, Kelly Messier, Annie Noonan, JM Olejarz, Debbie White

DESIGN

DESIGN DIRECTORS Stephani Finks *HBR Press,* Susannah Haesche *HBR,* Marta Kusztra *Product & UX*

ASSOCIATE DESIGN DIRECTOR Karen Player *Multimedia*

SENIOR GRAPHICS EDITOR Macaulay Campbell

SENIOR DESIGNER Emily Caulfield

PHOTO EDITOR Sasha Patkin

DESIGNERS Riko Cribbs *Multimedia*, Josephine Massey *UX*

CONTRIBUTING DESIGNERS Aaron Atencio, Kristen Nathan

PRODUCTION

EDITORIAL PRODUCTION DIRECTOR Dana Lissy

SENIOR PRODUCTION EDITORS Jennifer Waring, Christine Wilder

PRODUCTION EDITORS Victoria Desmond, Jodi Fisher, Anne Starr

SENIOR PRODUCTION SPECIALIST Robert Eckhardt

PRODUCTION SPECIALIST Alexie Rodriguez

CONTRIBUTING STAFF Colin Howarth, Kristin Murphy Romano

EDITORIAL ADVISORY BOARD

Bharat Anand, Azeem Azhar, John Battelle, Marcus Buckingham, Nicco Mele, Vivek Shah

EDITORIAL OFFICES
60 Harvard Way, Boston, MA 02163
617-783-7410 | fax 617-783-7493
HBR.org

VOLUME 99, NUMBER 2 | MARCH–APRIL 2021
Printed in the U.S.A.

Copyright 2021 Harvard Business School Publishing Corporation. All rights reserved.

GROUP PUBLISHER Sarah McConville

VICE PRESIDENT, GLOBAL ADVERTISING SALES
Gail Day

MANAGING DIRECTOR, DIGITAL PRODUCT STRATEGY
Jim Bodor

VICE PRESIDENT, NATIONAL ADVERTISING & MARKETING
Craig Catalano

SENIOR DIRECTOR, TECHNOLOGY
Kevin Newman

ADVERTISING
MANAGING DIRECTOR, ANALYTIC SERVICES Alex Clemente
DIRECTOR, INTERNATIONAL SPONSORSHIPS Daniel Cohen
SENIOR EDITOR, RESEARCH & SPECIAL PROJECTS Todd Pruzan
MANAGING EDITOR, ANALYTIC SERVICES Anthony Baldo
SENIOR RESEARCHER, ANALYTIC SERVICES Cynthia Talkov Boyd
WRITER/EDITOR, ANALYTIC SERVICES Danielle Warren
DIRECTOR, MARKETING Yasir Salem
ASSOCIATE DIRECTOR, MARKETING Samantha Barry
MARKETING MANAGERS Mary Callaghan, Jenna Henderson
ASSISTANT MANAGER, MARKETING Alexandra Shore
CONTRIBUTING CONSULTANT MaryAlice Holmes

MARKETING & COMMUNICATIONS
DIRECTOR, CONSUMER MARKETING Nini Diana
DIRECTOR, COMMUNICATIONS Amy Poftak
ASSISTANT DIRECTOR, E-COMMERCE Carol Concannon
SENIOR MANAGER, CONSUMER MARKETING Corrine Callahan
SENIOR MANAGER, ACQUISITION Josh Getman
SENIOR MANAGER, CUSTOMER RETENTION & LOYALTY Caty Trio

PRODUCT MANAGEMENT
DIRECTOR, PRODUCT MANAGEMENT Emily Ryan
PRODUCT MANAGER, AUDIO & VIDEO Adam Buchholz
SENIOR AGILE PROJECT MANAGER Don Doucette
SENIOR TECHNICAL PRODUCT MANAGER Frederic Lalande

BUSINESS & CUSTOMER ANALYTICS
SENIOR DIRECTOR, BUSINESS ANALYTICS & INSIGHTS Jessica Avery
DIRECTOR, CUSTOMER ANALYTICS & INSIGHTS Carrie Bourke
MANAGER, EMAIL OPERATIONS & ANALYTICS CherryAnn Goodridge
SENIOR CUSTOMER & MARKETING ANALYST Ellen Bonaccorsi
SENIOR RESEARCHER, EXPERIMENTATION & ANALYTICS Abigail Dawson
RESEARCHER, EXPERIMENTATION & ANALYTICS Amanda Ludden
SENIOR EMAIL MARKETING PRODUCTION SPECIALIST Frances Lee
EMAIL MARKETING COORDINATOR Milo Goodman

FINANCE & OPERATIONS
SENIOR DIRECTOR, FINANCE & OPERATIONS Greg St. Pierre
SENIOR DIRECTOR, INTERNATIONAL STRATEGY Kate Griffin
ASSOCIATE DIRECTOR, OPERATIONS & CUSTOMER EXPERIENCE Greg Daly
CUSTOMER EXPERIENCE MANAGER Danielle Weber
MANAGER, FINANCIAL PLANNING & ANALYSIS Krishna Dudhwewala
FINANCIAL ANALYST Joel Trudel
DATA INTEGRITY & OPERATIONS SPECIALIST Edward D. Domina IV

HBR PRESS
COMMERCIAL DIRECTOR, ASSOCIATE PUBLISHER Erika Heilman
DIRECTOR, MARKETING & COMMUNICATIONS Julie Devoll
LICENSING & INTERNATIONAL SALES DIRECTOR Jon Shipley
ASSOCIATE DIRECTOR, MEDIA & COMMUNICATIONS Sally Ashworth
MANUFACTURING MANAGER Rick Emanuel
PUBLICITY & COMMUNICATIONS MANAGER Felicia Sinusas
SENIOR SALES OPERATIONS MANAGER Brian Galvin
BUSINESS DEVELOPMENT MANAGER, DIRECT SALES Lindsey Dietrich
MARKETING AND COMMUNICATIONS SPECIALIST Alexandra Kephart

TECHNOLOGY
TECHNICAL ARCHITECT Stepan Sokolov
SENIOR WEB DEVELOPER Matt Wagner
SENIOR RELEASE ENGINEER Matthew Han
SENIOR APPLICATION DEVELOPER Rollin Crittendon
FRONT-END ENGINEER Caitlin Smith

A NOTE TO READERS
The views expressed in articles are the authors' and not necessarily those of *Harvard Business Review*, Harvard Business School, or Harvard University. Authors may have consulting or other business relationships with the companies they discuss.

LIBRARY ACCESS
Libraries offer online access to current and back issues of *Harvard Business Review* through EBSCO host databases.

ARTICLE REPRINTS
To purchase reprints of *Harvard Business Review* articles, go to HBR.org.

WORLDWIDE ADVERTISING OFFICES

NEW YORK
3 Columbus Circle, Suite 2210
New York, NY 10019
212-872-9280 | fax 212-956-0933
Maria A. Beacom *Senior Account Manager; Director, North American Research*
Michael Valecce *New England & NY Luxury Account Manager*

CHICAGO
847-466-1525 | fax 847-466-1101
James A. Mack
Central U.S. Sales Director

MIDWEST & SOUTHEAST
312-867-3862 | cell 312-401-2277
Samuel K. White
Midwest & Southeast Sales Director

LONDON
44-0-7890-608-707
Alexander Bart
Associate Director, Ad Sales
44-0-7538-236-722
Jack Elia *Sales Account Manager*

LOS ANGELES 310-546-3757
SAN FRANCISCO 415-986-7762
FRANCE 33-01-4643-0066
HONG KONG 852-237-52311
INDIA 212-872-9291
JAPAN 81-03-3541-4166
KOREA 82-2-730-8004
SHANGHAI 86-138-1643-7421
SOUTH AMERICA 55-11-98160-0177
UAE 971-4-228-7708
UNITED KINGDOM 44-20-7291-9129

For all other inquiries, please call 212-872-9280 or visit HBR.org/hbr-advertising-sales.

SUBSCRIPTION SERVICES

UNITED STATES & CANADA
800-274-3214
Harvard Business Review
P.O. Box 37457; Boone, IA 50037-0457
HBR.org/subscriberservices

ALL OTHER COUNTRIES
Asia Pacific region: 61-2-9158-6127
All other regions: 44-1858-438412
Harvard Business Review
Tower House, Lathkill Street
Market Harborough LE16 9EF
United Kingdom
www.subscription.co.uk/hbr/help

RATES PER YEAR
United States $119 | Canada US$139
International US$165 | Mexico US$139

SUBMISSIONS
We encourage prospective authors to follow HBR's "Guidelines for Authors" before submitting manuscripts.

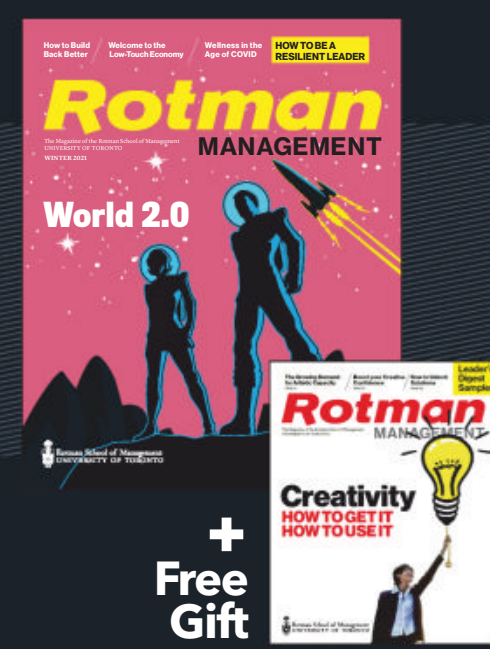
To obtain a copy, please visit HBR.org; write to: The Editor, *Harvard Business Review*, 60 Harvard Way, Boston, MA 02163; or email hbr_editorial@HBR.org.

Unsolicited manuscripts will be returned only if accompanied by a self-addressed stamped envelope.

Rotman MANAGEMENT

"Read cover to cover. Superb."

Tom Peters
Author, *In Search of Excellence*; Thinkers50 Hall of Fame



+ Free Gift

Filled with thought-provoking ideas and insights from leading global academics and management practitioners. Published by Canada's leading business school.

Subscribe today and receive our mini issue on creativity FREE!

Just $49.95 CAD/year
Available in print or digital

www.rotman.utoronto.ca/hbr

Rotman School of Management
UNIVERSITY OF TORONTO

TOGETHER AHEAD

"Our resiliency is being tested, and during this turbulent time, we must come together and unite as one to care for our patients and each other."

BILL VALLE
CHIEF EXECUTIVE OFFICER
FRESENIUS MEDICAL CARE NORTH AMERICA

To our team, a diverse force of 70,000 strong, thank you for your unwavering commitment and compassion. Together, you are improving our patients' lives every day.

#FreseniusStrong #TogetherAhead

FRESENIUS MEDICAL CARE

© 2021, Fresenius Medical Care. All Rights Reserved.

IdeaWatch

New Research and Emerging Insights

IN THEORY

REENGINEERING THE RECRUITMENT PROCESS

The skills needed in many roles are continually changing—and sources of talent are too.

THE COVID-19 PANDEMIC has upended many traditional business practices. When it comes to recruiting, the crisis has not so much disrupted as accelerated shifts in the talent landscape that were already under way, leaving many companies poorly served by their current hiring practices. In a period of steep unemployment, it might seem that companies looking to add workers would be in the driver's seat. But job openings have also been rising in recent months, meaning

Illustrations by **TIM BOWER**

that competition for top talent remains keen—and in uncertain times, bringing on the right people is more important than ever.

A recent study from research and advisory firm Gartner examines those shifts in the workforce landscape and lays out a road map for navigating the new one. The researchers identified three trends that are rendering traditional recruitment tactics obsolete.

First, the skills needed in many roles have an increasingly short shelf life, owing in part to more-frequent and disruptive technological breakthroughs. A 2019 survey of 3,500 managers found that only 29% of new hires have all the skills required for their current roles, let alone for future ones. The research finds that in key functions such as finance, IT, and sales, positions filled today will require up to 10 new skills within 18 months. It also documents rising uncertainty about what skills will be needed in current and future jobs as the surge in remote work sparks the redesign or automation of many tasks.

Second, the talent pools recruiters have routinely tapped are becoming outmoded. Highly gifted candidates can now be found outside traditional talent clusters, such as leading universities and technical colleges. More and more people are acquiring critical skills informally on the job—or even in their own basements. "Work lulls and layoffs have driven a boom in virtual learning, giving workers new autonomy in developing skills outside their day jobs," the researchers write.

Finally, candidates are increasingly selective about whom they work for, so firms need a compelling "employment value proposition," which might involve anything from competitive compensation and benefits to career-development opportunities and a reputation for stellar management. Talented candidates, particularly at high levels, are weighing opportunities differently. Factors such as meaningful work and proximity to family have taken on added importance during the pandemic. The freedom (often the imperative) to work remotely and to manage one's own schedule has increased employees' expectations that they can exert considerable control over the design of their jobs. Especially in a period of high unemployment, the researchers say, when people are reluctant to leave a secure position and take a chance on a new one, companies need to offer employee experiences that candidates truly value.

To adjust to these trends and build the workforces they need, companies should focus on two key courses of action.

Hire for potential, not experience. The first step in adjusting to the new landscape is to stop thinking about hiring as a matter of replacing specific employees, the researchers say. When looking to fill a vacancy, too often managers simply put together a profile mirroring that of the person who has left, perhaps tacking on a few new requirements—the equivalent of saying, "I want Sally plus these three other qualifications," the researchers write. At best, this yields candidates who are prepared for yesterday's challenges but probably not ready for tomorrow's.

Human resources leaders should push hiring managers to look beyond the immediate needs of their business units and consider what skills the larger organization must acquire to succeed in the future. "The first question HR asks a hiring manager shouldn't be 'Who do you need?' The better question is 'What do we need?'" says Dion Love, a vice

"Moving quickly, getting things done, creating an impact — First Republic knows how to help entrepreneurs."

MASSCHALLENGE

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

FIRST REPUBLIC BANK

It's a privilege to serve you®

(855) 886-4824 | firstrepublic.com | New York Stock Exchange symbol: FRC

MEMBER FDIC AND EQUAL HOUSING LENDER

president in Gartner's HR practice. "HR executives are positioned to drive this conversation because they should have an understanding of long-term talent gaps at the organizational level."

Hiring for skills presents its own challenges, of course, including designing assessments that reliably identify potential. "Employers are asking, 'How can I test for curiosity? For learning agility?'" says Lauren Smith, also a vice president in Gartner's HR practice. "They are scanning résumés for indicators such as success in a variety of roles and for transportable rather than industry-specific experience. It's no longer a question of 'Is this person credentialed?'"

When hiring managers place less emphasis on academic degrees, certifications, and formal experience, they will naturally look beyond traditional talent pools—the second course of action. Recruiters should target the "total skills market," looking at in-house talent with adjacent skills, candidates whose skills are self-taught, and—especially with the ubiquity of remote work—people in different geographic locations. Recruiting outside high-priced talent clusters can reduce costs. It should also boost diversity, because nontraditional pools tend to contain more women and people of color than are found in the usual recruiting hot spots.

Move beyond Ping-Pong and free snacks. It's critical that companies understand how candidates view them, the researchers say, and if necessary, find ways to boost those perceptions. Prospective hires are scrutinizing organizations' responses to the pandemic and looking to see how companies have helped—or failed to help—their employees find a comfortable work/life balance. In a survey of 2,800 job candidates conducted as part of the research, 65% reported halting the application process because they found some aspects of the job or the company unattractive. "The increased scrutiny and workers' demand for more influence...make it difficult for recruiters to rely on their usual incentives," the researchers write.

In managing their employee value propositions, organizations might take a page from the playbook of consumer goods companies. "Firms must understand candidates' expectations" and craft positions accordingly, "in the same manner in which they tailor their products to customers," Love says. HR departments at some leading companies hold focus groups to assess job seekers' expectations, benchmark their offerings against those of competitors, and scour social media and job-review sites such as Glassdoor to understand how they are viewed by current, past, and potential employees.

The pandemic is challenging companies to rethink traditional ways of doing business—thus providing an opportunity to reform outdated recruiting practices. "In my conversations with clients, I've found that the pandemic has opened their eyes," Love says. "The world was already transforming, but now the changes are much easier to see."

HBR Reprint F2102A

ABOUT THE RESEARCH *"Advancing Recruiting's Value Through Uncertain Times: Shaping the Workforce," by Gartner (white paper)*

IN PRACTICE

"We Are Seeing Talent Emerge in Unlikely Places"

As the global head of talent acquisition at health tech giant Philips, ***Cynthia Burkhardt*** *oversees the filling of some 15,000 positions a year. She spoke with HBR about how the company is adjusting recruitment practices during the Covid-19 pandemic. Edited excerpts follow.*

How has the pandemic changed the talent market?
We've been talking for some time about the dispersion of skills outside tech clusters, but Covid has accelerated the timeline. People in lockdown have embraced online learning, and now we are seeing talent emerge in unlikely places. One example is a chef whose restaurant had to close, so she taught herself to program in [the computer language] Python.

How has this changed your approach to recruiting?
Our approach is different for managers and business leaders. For business leaders, we try to speak their language and focus on balancing quality with cost savings.

We've created a tool that merges HR, finance, and population data, along with information about the labor market, which business leaders can use to build various workforce scenarios. What would happen if I hired 80 architects in Bangalore instead of in Eindhoven? If I used contract workers instead of hiring FTEs? If we hired more talent from universities rather than recruit experienced professionals? This data helps us question our assumptions about the types of workers we need and where to find them. And as a result, we aren't as homogenous now. We're tapping into new geographies and more-diverse types of workers to get the jobs done.

And at the manager level?
We are fortunate to have relatively low turnover at Philips. But that means our managers are not always aware of changes going on in the talent market. We strive to show them that the modern practice of hiring for skills can be more beneficial than hiring for résumés. We try to help them think more strategically, instead of reflexively trying to find a replacement candidate with the same credentials as the person who previously held the job. We say, "Let's not talk about the job title; let's talk about the objectives of the job and the skills needed to achieve them."

We also use peers to help assess candidates in a program called Bar Raisers. For example, managers may not have the technical expertise to evaluate certain candidates, so they partner with software developers who test applicants and offer feedback. In doing so, the developers become adept at quickly spotting top talent.

How do you hire differently in a candidate's market?
You have to be aggressive, particularly with hard-to-fill roles. You also have to tailor your recruitment approach and communications to the position; an engineer cares about different things than a sales executive does. We equip recruiters with "battle cards" on companies where we commonly look for talent. The cards provide continually updated information about the companies—press releases, Glassdoor and LinkedIn content, stock price, and so on—and highlight the areas in which we are the more attractive employer.

For instance, software developers typically prefer to work on a variety of high-impact projects, so Philips built a software center of excellence to rotate developers around the business. That sets us apart from our rivals, and candidates have responded well. Speaking to candidates about corporate purpose is also essential. When the pandemic hit, our work building ventilators and the stories coming from our employees were inspiring. We feel that our corporate purpose of improving lives gives us an edge in attracting top talent.

Photograph by **WEBB CHAPPELL**

THE END OF AN ERA?

IT jobs have a reputation for being exceptionally lucrative. But earnings growth in the field has moderated since the dot-com boom, and except in a few large cities, IT wages are now in keeping with those in other STEM disciplines.

"Digital Labor Market Inequality and the Decline of IT Exceptionalism," by Ruiqing Cao and Shane Greenstein

CEOS

This Job May Be Hazardous to Your Health

It goes without saying that the role of chief executive is highly stressful—and that stress can take a toll on health. A new study quantifies the effects, with sobering results.

The researchers collected birth and death data on 1,605 CEOs of large U.S. public companies who were appointed before the enactment of anti-takeover laws in many states—generally, in the late 1980s. By protecting against incursions from corporate raiders, the laws presumably alleviated some of the stress of the top job. Controlling for factors including CEO age, industry affiliation, and firm location, the researchers found that each year of service under the protective laws lowered mortality rates by an average of 4% to 5%—roughly equivalent to extending life spans by two years. Next the researchers looked at the 648 CEOs in the sample who had experienced at least one period of industry distress—defined as an industrywide 30% decline in equity value over two years—and compared them with those who hadn't. The industry distress appeared to shorten life spans by an average of 18 months.

Last the researchers collected multiple photographs of each of 463 CEOs on the 2006 *Fortune* 500 list, taken before, during, and after the Great Recession. They fed the photos to a software program that uses machine learning to estimate age. On average, the estimated ages were somewhat lower than the executives' actual ages, reflecting the fact that CEOs are in a privileged socioeconomic group, with better-than-normal access to health care and the means to eat well. But those who had experienced industry shocks during the recession looked about a year older than others born the same year.

"The daily rigors involved in service as a CEO impose significant health costs," the researchers conclude.

ABOUT THE RESEARCH *"CEO Stress, Aging, and Death," by Mark Borgschulte et al. (working paper)*

GENDER

A Silver Lining for Female Founders

Most entrepreneurs leave their ventures at some point and seek to reenter the workforce as paid employees. What kind of reception do they find? According to a new study, it depends in part on their gender—and when it comes to attracting a potential employer's interest, female founders have an advantage over men.

Over several months in 2017 and 2018, the researchers created and submitted 1,223 applications for marketing and HR positions advertised on a leading U.S. job website. Each employer received applications from two fictitious candidates, one who had previously founded a company and one who had not. The two had equivalent experience in jobs comparable to the one posted on the site. The gender of the applicants was varied randomly. Among the male applicants, far fewer founders than nonfounders were invited for interviews; among the women, there was no appreciable difference between founders and nonfounders.

The researchers subsequently presented each of 415 experienced marketing managers with one of the four possible résumé combinations (male

Introducing ATEM Mini

The compact television studio that lets you create presentation videos and live streams!

Blackmagic Design is a leader in video for the television industry, and now you can create your own streaming videos with ATEM Mini. Simply connect HDMI cameras, computers or even microphones. Then push the buttons on the panel to switch video sources just like a professional broadcaster! You can even add titles, picture in picture overlays and mix audio! Then live stream to Zoom, Skype or YouTube!

Create Training and Educational Videos

ATEM Mini's includes everything you need. All the buttons are positioned on the front panel so it's very easy to learn. There are 4 HDMI video inputs for connecting cameras and computers, plus a USB output that looks like a webcam so you can connect to Zoom or Skype. ATEM Software Control for Mac and PC is also included, which allows access to more advanced "broadcast" features!

Use Professional Video Effects

ATEM Mini is really a professional broadcast switcher used by television stations. This means it has professional effects such as a DVE for picture in picture effects commonly used for commentating over a computer slide show. There are titles for presenter names, wipe effects for transitioning between sources and a green screen keyer for replacing backgrounds with graphics.

Live Stream Training and Conferences

The ATEM Mini Pro model has a built in hardware streaming engine for live streaming via its ethernet connection. This means you can live stream to YouTube, Facebook and Teams in much better quality and with perfectly smooth motion. You can even connect a hard disk or flash storage to the USB connection and record your stream for upload later!

Monitor all Video Inputs!

With so many cameras, computers and effects, things can get busy fast! The ATEM Mini Pro model features a "multiview" that lets you see all cameras, titles and program, plus streaming and recording status all on a single TV or monitor. There are even tally indicators to show when a camera is on air! Only ATEM Mini is a true professional television studio in a small compact design!

ATEM Mini.....**US$295**
ATEM Mini Pro.....**US$595**
ATEM Software Control.....**Free**

Learn more at www.blackmagicdesign.com

Blackmagicdesign

or female, founder or nonfounder) and asked them to evaluate the candidate on several dimensions. Here, too, only the male applicants paid a penalty for an entrepreneurial past: The probability of a man's being recommended for an interview decreased by 79% when he had been a founder. The managers gauged entrepreneurs to be harder to manage, less likely to be team players, and more likely to quit than nonfounders. Those perceptions were mitigated when the founders were women, perhaps because women are often stereotyped as being "less entrepreneurial" than men. "The same biases that put women at a disadvantage [when starting a company] may, paradoxically, benefit them at the point of exit," the researchers write.

ABOUT THE RESEARCH *"A Founding Penalty: Evidence from an Audit Study on Gender, Entrepreneurship, and Future Employment," by Aleksandra Kacperczyk and Peter Younkin* (Organization Science, *forthcoming)*

PROFESSIONAL CONNECTIONS

Networking Without Dread

The professional gains to be had from networking are well-known, but many view it with reluctance, even dread. New research probes the psychology behind that reluctance and finds a framing that can make the activity more agreeable—and more fruitful.

In prior work, the researchers established that people often shy away from professional networking because, in contrast to purely social networking, it makes them feel selfish, inauthentic, and "dirty." Across six new studies, the researchers explored how people's motives can affect those feelings and influence their comfort with pursuing new connections. In one of the studies, the researchers surveyed 425 lawyers about how often they networked and the degree to which it made them feel inauthentic and impure. They also asked questions aimed at capturing whether the lawyers networked because of a desire for growth and advancement (a so-called promotion focus) or acted from a sense of duty and concern about missing out on opportunities (a prevention focus). The lawyers who reported a promotion focus experienced fewer feelings of impurity than the others did. They pursued more new connections, and their job performance improved as a result. A six-week field study involving 444 employees of various professional services firms obtained similar findings.

"Simply helping people focus on specific motives...could prove to be an effective means of making networking morally palatable and influence their development and job performance for the better," the researchers write.

ABOUT THE RESEARCH *"Why Connect? Moral Consequences of Networking with a Promotion or Prevention Focus," by Francesca Gino, Maryam Kouchaki, and Tiziana Casciaro* (Journal of Personality and Social Psychology, *2020)*

FINANCIAL DISTRESS

Bankruptcy in the Time of Covid

Bankruptcy filings have historically tracked broad economic conditions, dropping during prosperous times and rising during recessions. So far, the

Planet of finance
The financial social network

Let's build the most exclusive financial community worldwide

www.planetoffinance.com

THE FRIENDS-AND-FAMILY BONUS

Employees are less likely to behave unethically when their work spaces include photos of loved ones rather than photos of landscapes, themselves, or strangers, or when they display no photos at all.

"Show Me the...Family: How Photos of Meaningful Relationships Reduce Unethical Behavior at Work," by Ashley E. Hardin, Christopher W. Bauman, and David M. Mayer

picture during the Covid-19 pandemic is different.

A team of researchers collected data on all U.S. bankruptcy claims filed from January 1 through August 31 of 2020 and those filed during the corresponding months of 2019. This showed that overall, bankruptcies dropped by 27% year over year. Chapter 11 filings by large organizations rose by nearly 200%, but that increase was more than offset by decreased filings among individuals and small businesses—declines that, counterintuitively, were sharpest in states with especially high unemployment.

Fewer bankruptcies may seem like a good thing, and in some cases it is. Because the CARES Act temporarily increased unemployment benefits and also provided stimulus checks, many people received more money than they had been taking in while working. This aid presumably kept some households and small businesses afloat. But the pandemic also caused many courts to shut down their facilities, making it harder for those without internet access to file for bankruptcy. In addition, courts altered certain rules and operations, making it more difficult to file without an attorney. Many people out of work probably lacked the means to pay for representation, especially early on, barring their access to bankruptcy protection. (As the financial relief measures were rolled out, some types of filings increased for a while, supporting this interpretation.) Still other households and businesses most likely held off on filing while waiting for the severity and duration of the crisis to become clearer.

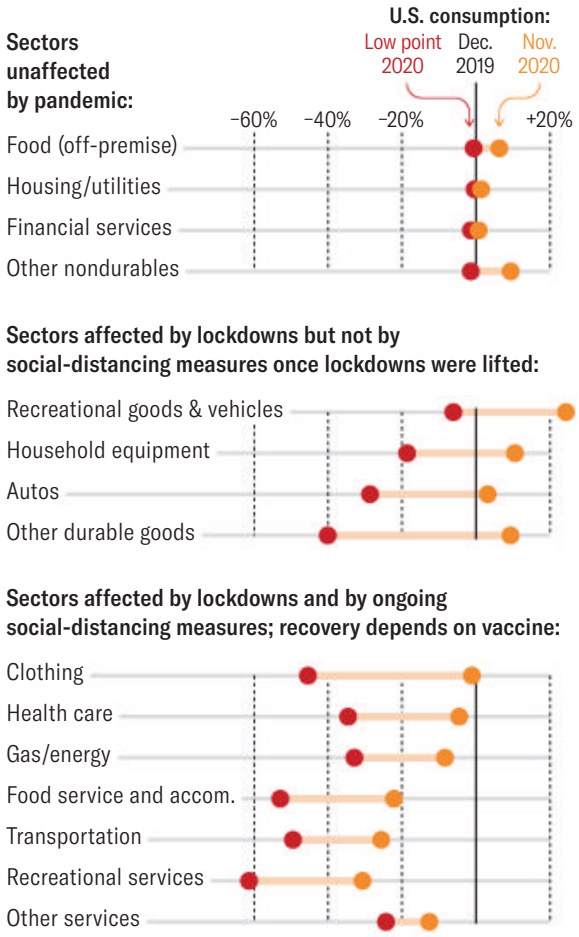
These findings represent only a snapshot of the early months of the pandemic, and there's no telling whether the pattern will change as the crisis plays out. Still, the contrast with prior economic downturns is striking. "Large businesses have continued to seek and receive relief from the bankruptcy system as they would during a normal recession, and relatively wealthy homeowners have on average benefited from the fiscal stimulus and housing moratoria," the researchers write. "However, non-homeowners and small businesses may face financial, physical, and technological barriers to accessing the bankruptcy system."

ABOUT THE RESEARCH *"Bankruptcy and the Covid-19 Crisis," by Jialan Wang et al. (working paper)*

THE U.S. ECONOMY

Three Paces of Recovery

Different consumption sectors of the economy are bouncing back at different rates. Some have not dipped during the pandemic; they involve needs that are relatively fixed. At the other end of the spectrum are mostly services-based sectors whose recovery will depend on the wide deployment of vaccines.



Source: BEA, BCG Center for Macroeconomics

ONLINE GAMES

How Companies Can Battle "Gaming Disorder"

In response to concern about the potentially addictive nature of online games, some firms have implemented policies

Analysis you can trust.

Read the latest research-based thought leadership from Harvard Business Review Analytic Services. Access business intelligence and peer-group insight from the HBR Advisory Council global research panel and from subject-matter experts on today's most pressing management topics.

Harvard Business Review
ANALYTIC SERVICES

RECENTLY PUBLISHED

Briefing Papers

The Platform Revolution in Southeast Asia
Sponsored by Shopify Plus

Continuous Transformation Starts with Culture
Sponsored by North Highland

Staying Connected with Customers in the Contactless Economy
Sponsored by Salesforce

Transforming Employee Health, Benefits, and Well-Being with a Health Operating System
Sponsored by League

Taking an Agile Approach to Transforming Business Processes
Sponsored by Salesforce and Conga

Research Reports

Recreating Work as a Blend of Virtual and Physical Experiences
Sponsored by Verizon

Pulse Surveys

Continued Success in Food Retail
Sponsored by Panasonic

The State of Cloud-Driven Transformation
Sponsored by Splunk

Accelerating Change in Insurance Distribution through Technology
Sponsored by Salesforce, Vlocity, DocuSign

High-Tech Firms Double Down on Cloud to Overcome Covid-19 Disruptions
Sponsored by Salesforce

Delivering Customer-Focused Innovation
Sponsored by AWS

The Necessity of Cyber Risk Quantification
Sponsored by PwC

Purpose: The Critical Importance of Tying It to the Customer
Sponsored by Gongos

Research Webinars

Recreating Work as a Blend of Virtual and Physical Experiences
Sponsored by Verizon

Reevaluating Digital Transformation during Covid-19
Sponsored By Quick Base

White Papers

Winning with Client Relationships
Sponsored by Salesforce

Reconciling Cultural and Digital Transformation to Design the Future of Work
Sponsored by HCL

Embracing Data Sharing and Collaboration Could Change the Shape of Health Care
Sponsored by Optum

hbr.org/hbr-analytic-services

Access these and hundreds of other reports and white papers in the research archive.

Register for the HBR Advisory Council: hbr.org/advisory-council/register

aimed at curbing excessive use. For example, Tencent limits gamers 12 and under to an hour of play each day. New research finds that some interventions are more successful than others.

The researchers gathered data on 402 randomly selected players of the online video game World of Warcraft, tracking frequency and length of sessions, idle time between play, levels achieved, and whether players maintained their subscriptions. The analysis included nearly 15,000 gaming sessions in all. The researchers tested three actions aimed at mitigating so-called habitual gaming: doubling the time needed to move from one experience level to the next and receive the associated reward; sending notifications that reminded users how long they had been playing; and temporarily forcing players off the platform after they had been active for a certain amount of time. To gauge success, they looked not only at the effects on playing time but also at the impact on subscriptions.

"A revised reward schedule and the imposition of time limits result in a win-win outcome for both the firm and consumers, leading to higher revenues and a smaller share of time devoted to product use," the researchers write, explaining that both interventions led to slower consumption of the game's content, which in turn drove longer-term engagement with the game. Reminding people of their playing time, by contrast, backfired. The notifications interrupted players' flow, making them less likely to become satiated with the game and prompting them to engage in shorter but more-frequent sessions, significantly increasing their total playing time and reinforcing the habit.

ABOUT THE RESEARCH *"How Should Firms Manage Excessive Product Use? A Continuous-Time Demand Model to Test Reward Schedules, Notifications, and Time Limits," by Yulia Nevskaya and Paulo Albuquerque* (Journal of Marketing Research, *2019)*

COMMUNICATION

The Psychology of Jargon

We're often exhorted to limit jargon in our writing—and yet highly specialized words and expressions crop up persistently, even when simpler, more accessible terms would suffice. New research finds that people who see themselves as low in status are especially prone to this pitfall, using fancy language as a compensatory tool.

To start, the researchers analyzed the titles of the 64,956 dissertations and master's theses submitted to U.S. universities in 2016 and 2017. They used *U.S. News and World Report*'s annual college rankings to classify the authors as attending either high- or low-status schools, and they drew on common readability indexes to measure the jargon in each title. Authors from low-status schools used more jargon, in the form of complex language, than did their peers at tonier institutions. They were also more likely to include acronyms—another form of jargon.

In subsequent experiments, participants were led to believe they were either lower or higher in status than other participants (or sometimes similar); the researchers then compared the groups' use of jargon in activities including entrepreneurial pitches, online conversations about research, and the writing of professional profiles. Those in the low-status groups consistently used more jargon than the others.

THE PRICE OF ADMISSION

Most firms that joined the S&P 500 index in the past decade soon began underperforming their non-indexed peers. One possible reason: An increase in so-called passive investors weakens the ability of active investors to hold managers to account.

"Does Joining the S&P 500 Index Hurt Firms?" by Benjamin Bennett, René M. Stulz, and Zexi Wang

In the final experiments, participants were asked why they made the word choices they did. This revealed that those led to consider themselves as low in status tended to focus on their audience's evaluation of them, while those led to think of themselves as high in status were more concerned with clearly expressing their ideas. "Jargon is a specific form of language that can be used to not only communicate efficiently with other group members but also to signal information about one's standing within a group," the researchers write.

ABOUT THE RESEARCH *"Compensatory Conspicuous Communication: Low Status Increases Jargon Use," by Zachariah C. Brown, Eric M. Anicich, and Adam D. Galinsky* (Organizational Behavior and Human Decision Processes, *2020)*

ENTREPRENEURSHIP

Video Techniques That Help—or Hurt—Crowdfunding Campaigns

Videos can give crowdfunding efforts a big boost. For example, Kickstarter projects that include them are 85% more likely to reach their funding goals than projects that do not. In making their videos, entrepreneurs consciously or unconsciously employ various impression-management techniques. But although scholars have studied those techniques in live pitches, their effectiveness in video presentations has been largely unexamined, in part because of the labor involved in analyzing videos. New research ventures into that territory with the help of AI.

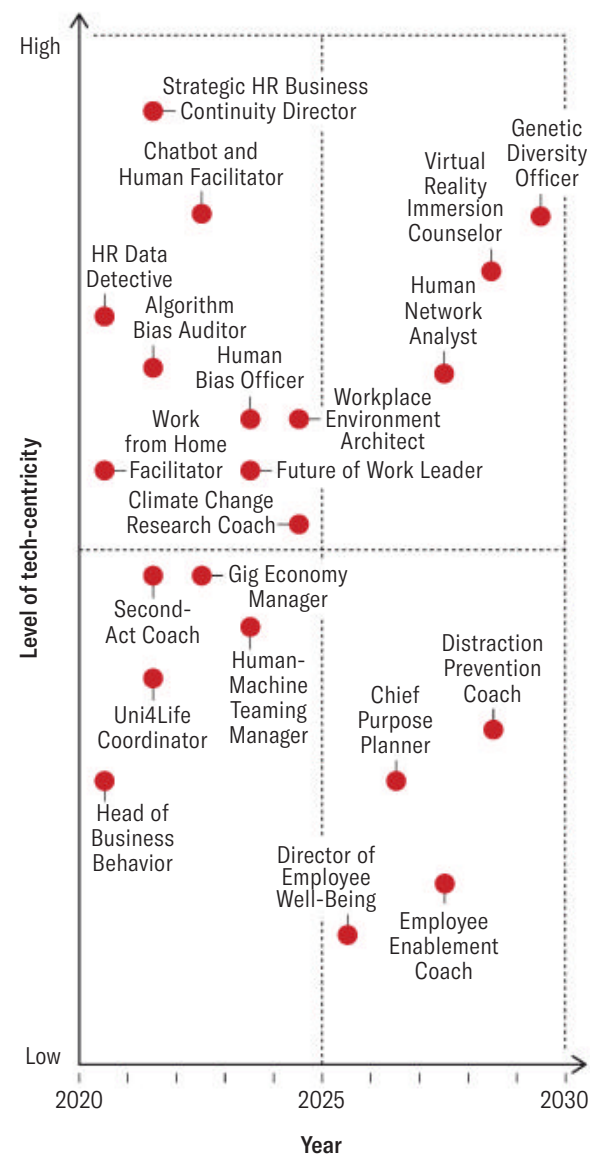
The researchers analyzed 257 Kickstarter projects that included videos in their pitches. For each, human coders and AI software separately evaluated five impression-management techniques: *self-promotion* (boasting or demonstrating skills and experience), *ingratiation* (complimenting or flattering in order to be liked), *exemplification* (appearing dedicated and hardworking), *intimidation* (using threats, such as warning of dire outcomes from not using the product being touted), and *supplication* (demonstrating need). The AI analysis picked up far more than the human coders were able to; it showed that self-promotion and exemplification boosted success, as determined by goal-completion rate and number of backers. Somewhat surprisingly, ingratiation and supplication had no impact. Intimidation proved counterproductive, as one might expect. That doesn't mean entrepreneurs should never pitch their product as solving a dire problem, the researchers say. "The success of such a strategy depends on how creators present the problem," they write. "If it is explained in a too-scary way, some negative feelings may appear among [those] watching the video."

ABOUT THE RESEARCH *"Impression Management Techniques in Crowdfunding: An Analysis of Kickstarter Videos Using Artificial Intelligence," by Pawel Korzynski, Michael Haenlein, and Mika Rautiainen* (European Management Journal, *forthcoming)*

HUMAN RESOURCES

Introducing the "Distraction Prevention Coach"

Nearly 100 top talent and workforce transformation executives were asked to envision HR's evolution over the coming decade. They identified 21 critical roles, arranged below according to degree of tech-centricity and projected year of appearance.



Source: Cognizant Center for the Future of Work, Future Workplace

When **Magdalena Cholakova**, an associate professor at the Rotterdam School of Management, studied how one organization pushed through a transformation effort, she made a surprising discovery: By taking a playful approach to the rollout, which included poking fun at the change program, leaders were better able to persuade employees to go along with it.

The conclusion:

Mocking Can Help an Initiative Succeed

Professor Cholakova, DEFEND YOUR RESEARCH

CHOLAKOVA: I'm interested in understanding how organizations that are trying to implement change cope with the challenges and the pushback that their efforts often provoke. In this study one of my graduate students, Marc Gijsbers, and I focused on an initiative that the Netherlands office of PwC—the accounting, tax, and advisory firm—was launching in 2015, called Vision 2020. The organization had traditionally been keenly focused on meeting its financial targets. But this new "vision" involved telling employees, among other things, that they should also "care" and "make a difference," which had the potential to feel like a contradiction. Instead of ignoring that challenge, the leaders at PwC chose to acknowledge and even make light of it. And it worked. Vision 2020 was embraced. Of course, PwC also used traditional best practices for change management along the way. But it's clear from our research that humor helped accelerate the process.

HBR: But why did it work? Usually when you make fun of something, you don't help it. You undermine it. Well, a leading explanation of how humor works is that it combines concepts that are incongruous at first. At PwC, employees had been operating under one set of norms and practices for a long time but were now suddenly confronted with another. Jokes about this situation allowed people to accept the coexistence of two different sets of goals without necessarily resolving their underlying tensions. This then gave people a chance to make sense of the goals together and gradually understand the tensions and find ways to resolve them.

Remember why humor is used in advertising: Because in many cases it can make consumers more likely to pay attention to the brand and can help build positive associations with it. Advertisers publish the ad or air the commercial many times as a reinforcement for consumers. Managers can use humor in the same way to drip new values into an organization slowly and pleasantly so that they gain acceptance and remain top of employees' minds.

Can accountants really be funny?

It seems that Dutch accountants can. In fact, humor was already a big part of the culture at PwC Netherlands. Even before Vision 2020, associates held regular "cabaret nights" at which they would roast partners and directors. The rollout of Vision 2020 built on that tradition. For instance, one of the new values was "reimagine the possible." This didn't mean that PwC was going to become, say, an IT company, but it

Remember why humor is used in advertising: Because in many cases it can make consumers more likely to pay attention and can help build positive associations.

would mean redefining core values. Managers used the slogan in a gently satirical way: "Jack, the team really appreciates your attempt to reimagine the possible by putting the PowerPoint slides in the wrong order, but perhaps you can be more careful next time!"

How exactly did the staff members respond? They used humor too. It gave many of them a safe way to voice their frustration, and sometimes their cynicism, with this big change initiative, by resorting to sarcasm and irony, which prior research has shown can help people process seeming contradictions. For instance, "I guess we have to reimagine the possible if we want to get all our work done" became a way to express frustration with the challenge of integrating the new demands created by Vision 2020 with their normal responsibilities. The cabaret nights also allowed employees to vent in a nonthreatening way, following the long tradition of using humor to safely speak truth to power. Think of court jesters and fools. As the humorist Mary Hirsch has noted, "Humor is a rubber sword. It allows you to make a point without drawing blood."

This study looked at one change initiative in one company in one country in one industry. Do you think you'd find the same results in different settings? That is a great question. As Bauke Sprenger, a PwC partner and our collaborator on the research, initially related to us, even within PwC Netherlands you can hardly expect to find a single organizational culture. You have different types of people working for the audit, tax, and advisory arms of the company and variety that stems from the industries and clients the firm works with. An auditor working in health care is by no means similar to an M&A adviser in private equity. Humor may therefore need to take a different shape and expression in each unit in each country, but the key is that it's there.

I'm worried your advice will turn managers into *The Office*'s Michael Scott. We'll see cringeworthy attempts at humor. Yes, we've all had experience with managers' trying to make jokes and falling flat, and it can be awkward. If you can't be funny yourself, you can still partake in some of the humorous exchanges happening around you or facilitate others' use of humor. We didn't set out to study humor per se, but if you want specific advice on this, the recent book *Humor, Seriously,* by Jennifer Aaker and Naomi Bagdonas, is a good place to start. What matters most is that the humor matches a person's own style, so it feels authentic, not canned. In general I think leaders underuse humor. Research has shown that it not only can improve your mood but, more important, also can break the cycle of unproductive thoughts and trigger more-creative problem-solving.

Isn't the biggest risk with humor offending someone? Yes, some jokes are or can be perceived as aggressions toward minorities and protected classes of workers. But we're not telling people to show up at work to do stand-up. We're talking about finding humor in the internal workings of the company. At PwC this meant pointing to the contradiction inherent in a buttoned-up company's suddenly shifting its attention to aspirational values.

But in a case like that, aren't you still offending the person that suggested the change initiative you're mocking? For instance, how did the person who came up with the "reimagine the possible" slogan feel? PwC was not mocking the initiative itself but, rather, the incongruencies that it brought about in employees' day-to-day activities. It was a safe, nonaggressive way of allowing for the fact that we don't have to agree on everything right here and now and that change is uncomfortable.

What are some other rules for using humor well? Humor should be used carefully—so make sure that most of it is positive and not negative. Research calls this "affiliative" humor as opposed to "aggressive" humor. Think of having a consultant stuck in the red tape of a client, which can engender sarcastic comments such as "We are in *Catch-22,* the sequel," or "Kafka must have been impressed with the bureaucracy." That's different from aggressive humor, which would target specific people and may belittle or offend them. The good news is that it's fairly easy to distinguish between the two.

Want to hear a change management joke? I think so?

Don't fear change, my friend....It's just nickels and dimes. Oh no. No, no, no. Please don't print that.

Interview by **Eben Harrell**

HBR Reprint F2102B

THE FORMER AND CURRENT CHAIRS OF MASTERCARD ON EXECUTING A STRATEGIC CEO SUCCESSION

by Richard Haythornthwaite and Ajay Banga

WE MET EACH other for the first time in April 2009. Mastercard was looking for a new CEO amid a global financial crisis. One of us (Rick) was chairman of the board and leading the search; the other (Ajay) was a Citigroup executive who had been suggested as a potential candidate. This initial get-together, arranged for a spring afternoon at Rick's country house in Sussex, England, just as the bluebells were coming out, was meant to determine whether Ajay might be a match for Mastercard and vice versa. It quickly turned into a strategy session. We talked about what the company

David Vintiner (Haythornthwaite); Mackenzie Stroh (Banga)

and our industry would look like two, five, 10, and 20 years into the future and how we would develop the culture, talent, and teams to succeed.

The imminent CEO succession was our focus, of course, but—believe it or not—we also discussed the next one: Before Ajay even had the job, we were imagining his replacement and both expressing determination that we should not have to hire from outside the next time around. This mutual forward-looking focus was how we knew—over the course of a few hours' conversation—that we'd found a fit. Ajay was willing and able to lead Mastercard through the turmoil into a digital future. We also agreed that if he was successful in the role, his tenure should last about 10 years, but that planning for the next CEO transition would be an open and integral part of everyday senior leadership development from day one. That was a soft promise at first, but it would gradually harden as candidates emerged.

Ajay joined Mastercard as president and chief operating officer in August 2009 and moved into the CEO seat in July 2010. Along with the rest of the board and the executive team, we spent the next five years working to expand and transform our business, but by 2015 we had resumed the next-succession conversation in a more concrete way. That included identifying a broad and diverse slate of internal candidates, clarifying process and goals with all Mastercard's directors, and developing an initial role spec (which was to be revised many times). Within a few more years we had hired Egon Zehnder to offer leadership development to those high-potential employees, recommend and assess finalists, and highlight external stars to demonstrate how our homegrown talent stacked up.

In February 2020 that multiyear process came to its natural conclusion. After seriously considering four final candidates (all of whom were internal), the board unanimously voted to appoint Michael Miebach, a veteran Mastercard executive, as the company's next CEO.

As a board chair, it is hard to contemplate replacing a charismatic, visionary CEO who, like Ajay, has tripled your company's revenues, increased its net income sixfold, and grown its market capitalization from below $30 billion to more than $300 billion. As a chief executive, it's perhaps even harder to think about how to replace *yourself* with someone you believe will do the job better than you could over the next 10-year stretch. But because we approached the process thoughtfully and systematically, we are confident that we've made the right decision. We cast a wide net, considering more than 40 internal employees and a handful of standout externals before selecting our finalists. We committed to inclusivity in decision-making, asking the entire board to participate. We insisted on solving for tomorrow's problems, not today's, in clarifying what type of new leader we needed. We focused on developing and retaining all our current and future stars—not just filling the top job. Finally, we pledged to keep our minds open and our personal opinions to ourselves until the last moment, while also discouraging early preferences and groupthink from the directors.

As we make our own transitions—Rick out of the chairman's seat and Ajay into it after handing the CEO role to Michael—we want to offer more detail about our approach.

A STRONG FOUNDATION

First, some background on us: Rick became a FTSE 100 chief executive quite unexpectedly at age 42. He'd been hired by the cement maker Blue Circle Industries but told that he wouldn't be a candidate for the top job. Two years later, however, he was under consideration for it, and that was his first glimpse of the CEO succession process. Since then he has also served as CEO of the engineering group Invensys; held seats on many boards (Imperial Chemical Industries, Premier Oil, Land Securities, and Lafarge, which acquired Blue Circle); and led several CEO searches as chair (Network Rail, Centrica, QiO Technologies, London's Southbank Centre and Almeida Theatre, and Mastercard, now twice).

Ajay started his career in India, first at Nestlé in roles spanning sales, marketing, and general management, and next at PepsiCo, where he launched local fast-food franchises. He then joined Citigroup, and after more than a decade serving in management roles around the world, he ran its global consumer business and served as CEO of Citigroup Asia Pacific. He was in that job when Rick called, and although he was happy at Citigroup, he realized that leading Mastercard was an opportunity he couldn't pass up: the chance to transform a traditional and staid credit card company into a technologically savvy provider of broader financial services.

The core of our strategy coming out of the 2008–2009 financial crisis was simple: compete not against Visa and

It's not easy to replace a CEO who has tripled your company's revenues, increased its net income sixfold, and grown its market cap from below $30 billion to more than $300 billion.

American Express but against cash, which then accounted for 85% of retail payments globally. When we took stock of how cash was being used, the path forward came into focus. We needed to win in the core payment space by supporting choice, making it easy and intuitive for people to securely pay however they wanted: account-to-account or by credit, debit, or prepaid card, or any other system that might evolve, such as blockchain. That had three knock-on effects. First, we would have to embrace emerging technologies and help build cutting-edge tools to make them more secure and seamless. Second, we should diversify by expanding into adjacent spaces such as cybersecurity and data analytics, adding value to the core offering. And third, we needed to address financial inclusion in a commercially viable, sustainable way: If our business model of offering choice in payments was to succeed, that choice had to be accessible to everybody.

So we took big bets on technologies pivotal to our future and stuck with them through delays and over hurdles because we knew they would pay off. We built out our analytics, cybersecurity, data, and artificial intelligence capabilities, and they now account for a third of our revenue. More recently we've extended into commercial payments, helping companies transact with more choice and efficiency. We made a commitment to bring 500 million unbanked people into the digital economy by 2020, and we've met that goal; now our target is to reach one billion people by 2025, along with 50 million small and micro businesses and at least 25 million female entrepreneurs.

While learning how to compete with even more of an edge in the marketplace, we held fast to our reputation for decency. We talk a lot about not just IQ and EQ, or emotional intelligence, but also DQ, decency quotient. That starts with supporting employees. Our message is always "I'm here for you. I've got your back." That translates into global benefits standards such as 16 weeks of fully paid maternity and paternity leave, a stock ownership program for which 95% of our employees are eligible, and above-market retirement savings contributions and vesting schedules. It also extends to our financial inclusion commitments, our pledge of $250 million to support small businesses with technology and services through the pandemic, and our new push to promote more environmentally friendly spending behavior among our customer base. Over time we have truly transformed every aspect of our business: strategy, structure, product, talent, and culture.

Both of us believe that people development is an important and rewarding aspect of a leader's job. As chairman or CEO of a company, you must always be thinking about whose skill sets match your future strategies, which people have the potential to learn and grow, and which role rotations will help them do so. We push those who have C-suite aspirations to switch geographies and to move between line jobs, where they control P&Ls, and staff jobs, where they need to exert more influence than authority.

For example, years ago, when Michael Miebach was wrapping up a successful stint as head of our Middle East and Africa operations, he was interested in leading Asia. Ajay said no. Why? Because it would have kept him in his comfort zone, doing the same work on a larger stage. "How does your going to Asia and spending another five years knocking the ball out of the park make you more attractive to me?" Ajay asked him. Michael realized it wouldn't. Instead he needed to supplement his expertise in market development, sales, and client management with exposure to the technology and data sides of our business; to go to the United States, our most important geographic region; and to stretch himself in more ambiguous, less straightforward roles. He became chief product officer.

Ajay has encouraged all his direct reports to push themselves in similar ways, and we expect managers around the company to do the same with their teams. That's baked into our HR practices as well. Every June each manager has a conversation with each of his or her direct reports to assess development areas (what they're doing well, what they could do better, how they rate across thoughtful risk-taking, sense of urgency, making the complex simple, and empowerment with accountability) along with career aspirations and how they plan to achieve them. We compare the final assessments with each business unit's strategy for the next year, the skills needed to execute it, and succession planning. In this way we can look across the whole enterprise for moves that will make the most sense for our people and the company.

Our president of North American operations, Linda Kirkpatrick, was in investor relations when Ajay first noticed her strategic creativity and execution skills, and she's been pulled through various roles every two or three years

Courtesy Anthony Venutolo/Mastercard

Ajay Banga and Michael Miebach at Mastercard's internal all-employee town hall on February 25, 2020, when the CEO transition was announced

since. Our general counsel, Timothy Murphy, went from the legal department to leading product teams to his current role—a trajectory that turned him into a businessman's lawyer. And Sachin Mehra, our CFO, stepped out of an operating committee role in the finance department to become head of commercial products before returning as deputy CFO and rising to lead the team.

EARLY PREPARATION

Succession wasn't a topic of conversation just for the two of us early on; we floated the idea of a 10-year stint with the rest of the board, investors, and employees at our town hall meetings. Why? Because when a leader has been successful for that long, people often stop pushing back against him or her. We wanted our brightest and best talent to be driven to help build a great company and, one day, to run it. And in an environment of ever-accelerating change, by a decade down the road we would perhaps all feel that new blood was needed. We took nothing for granted and wanted to start developing the pipeline as soon as we could. Our goal was to be a factory for general managers and potential Mastercard CEOs. And the clock was ticking.

Many CEOs struggle to envision a future in which they are no longer leading their companies; they become their roles and want to be carried out feet first. That's not our view. So, about five years into Ajay's tenure, we started looking more seriously at would-be successors. Any later would have been too late for a company of Mastercard's size and complexity. Organizations that start thinking about their CEO successions one, two, or even three years before the desired transition point often end up passing over people who could have been real contenders if only they'd been given more investment, development, and time.

Our early start allowed us to do something that in our opinion is key to a strong and well-received CEO succession: We cast a wide internal net. Helped by natural retirements, we eliminated a top layer of the hierarchy so that 30 executives could become part of the reconstituted management committee—and have their careers guided by Ajay. This was a new demographic of leaders matched to the company's future, so it also seemed like the right time to complement our existing internal leadership development system with a broad-based "senior management excellence program" that would eventually segue into a more formal succession process. We identified 42 men and women in a variety of positions, all of whom received group and personalized leadership training and coaching. These one-downs, two-downs, and even three-downs also gained more exposure to the board, by presenting at meetings and engaging with the directors personally through informal coffees or "speed-dating" sessions at quarterly meetings designed to connect as many board members with key executives as possible. Some were also assigned board-level mentors; for example, Ajay suggested that Rick take on Michael, then a rising star in Middle East operations.

By 2018 several promising contenders were emerging and approaching

readiness for the CEO role, so we put a bit more structure around our decision-making. The company was flying high, and the board was reluctant to see Ajay depart but recognized that we didn't want top talent to start leaving because opportunities wouldn't open up. It would not be easy to transition from a highly respected and successful CEO. But Ajay made the case, both internally and externally, that our next generation of leaders would be better placed to deliver results going forward.

Another key principle we adhered to from the beginning and further emphasized as the succession process accelerated was to involve the entire board. CEO selection is not something you can delegate to a subcommittee. We insisted that every conversation on this issue be a group one. Our direct mentoring of high potentials stopped around spring 2016, because we didn't want anyone to play—or appear to be playing—favorites. But candidates continued to make presentations at our quarterly meetings in the course of their regular work, and to engage socially with board members at breakfasts, cocktail parties, and dinners. We asked that every director meet every serious contender at least once in person on their own.

Together we all worked to solve for tomorrow rather than today, with a flexible, forward-looking role spec that we carefully defined and redefined as we moved forward. Ajay had long given time during each December board dinner (which was always devoted to people and culture) to outlining the characteristics he thought our next CEO would need. Now we were all deliberating these ideas, trying to more precisely define the type of person we wanted for the job. We recognized that the answer wasn't a carbon copy of Ajay; but our first pass at a description wasn't far from Ajay 2.0. Our next described a superhero boasting every attribute under the sun. It was a work in progress.

A MORE FORMAL PROCESS

In June 2017 we decided to hire an outside advisory firm to bring its own discipline, methodology, and impartial insights to the process. We didn't want anyone involved to feel that our eventual choice had been made capriciously or with bias. We interviewed three firms and ultimately chose Egon Zehnder. We knew it could serve as a key source of advice and support for the finalists and would help us figure out which person could most effectively make the big and difficult leap from lieutenant to top role. One note on consultants, however: They can make you more successful, but they cannot do your job. Especially for a CEO succession, the process starts and ends with the board, supported by a very small, tightly sealed executive secretariat—in particular the chief people officer, who for us was the talented Michael Fraccaro.

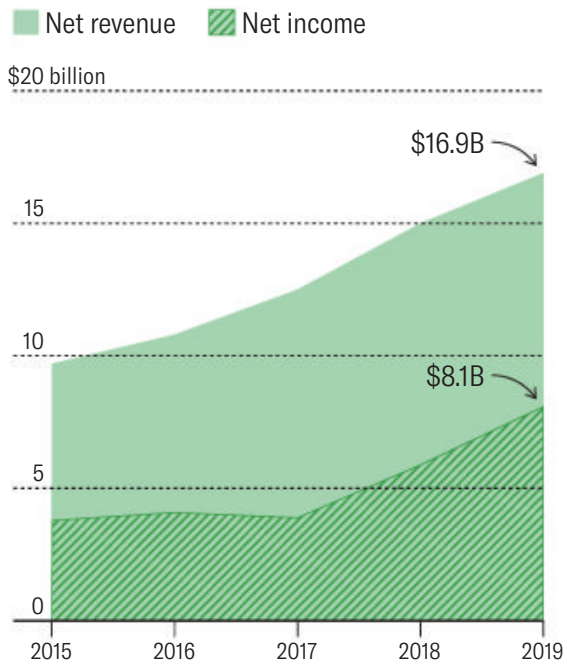
Once Egon Zehnder had been hired, we doubled down on our commitment to invest in talent development so that every participant would feel well served by the experience—and ideally, willing to stay with Mastercard—even if not chosen as CEO. Egon Zehnder put the top tier of potential successors through immersive offsite programs, personalized coaching and development plans, and psychometric testing and 360-degree reviews—all designed to make them more credible contenders and to ensure that they derived personal value from the process. By April 2019 we had four front-runners about whom we felt extremely positive. All were enthusiastically participating in the process and making great strides as leaders.

The Egon Zehnder team also helped the board finalize our role spec. They interviewed individual directors to learn more about how they saw Mastercard stepping into the future with a new CEO and then played those findings back to the group. Toward the end of the process we also asked them to present the very best external candidates—not people whom they'd approached, just leaders at other companies who, judging from their résumés and references, could possibly fill our CEO role should we want to hire from the outside. Talking about those strangers—what we admired about them, what we didn't, which of their skills, experiences, and traits were most relevant to our future—pushed us to nail down our must-haves. Those included

FACTS & FINANCIALS

Mastercard

Founded: 1966
Headquarters: Purchase, NY
No. of employees: 20,000



Source: Mastercard

We wanted to keep everyone engaged and active and all serious contenders under consideration for as long as possible to ensure the best decision.

walk-in-the-door credibility; a deep understanding of our complex business and of public-private partnerships; technological and international know-how; a strategic mind complemented by execution and delivery expertise; resilience; street smarts; character; and a strong sense of social mission, given the role we believe corporations play now in society and will continue to play far into the future. Having figured all that out, we opted not to interview anyone external. We knew that we would find the right CEO among the four internal contenders.

One final way we maintained a fair process was to keep our minds open and our preferences quiet until the last decisive conversation. Why? Once you allow board members to express their views, you can't put the genie back in the bottle. The dominant voices will begin to pollute the conversation. That's particularly true if the chairman or the chief executive has and conveys an opinion. No director—or CEO candidate—wants to be involved in a process that feels choreographed to a predetermined conclusion. We wanted to keep everyone engaged and active and all serious contenders under consideration for as long as possible to ensure the best decision. So the two of us never even hinted at which way we were leaning. We told the board, "When you're ready to vote, we'll tell you what we think."

DEBATE AND DECISION

In October 2019 we decided to have another succession talk at our end-of-year meeting. We'd kept our ears to the ground and started to sense that directors were aligning around their favored candidates. We've always prided ourselves on having a board and a company that are relatively politics-free, so we wanted to preempt any forming of factions. That meant having a more serious discussion in December, and we started prepping for it in earnest. Rick called the directors individually to learn what they saw as the pros and cons of each candidate and whom they would choose if asked to do so that day. He kept all this information in confidence, but when the board finally met over dinner, he used it as a template for the discussion, encouraging people to speak up for their favored successors and ensuring that all opinions were heard. He then asked the group to consider why each candidate shouldn't get the job. "When you have eliminated the impossible, whatever remains...must be the truth," as Sherlock Holmes said. At the end of that three-hour session, we felt we were ready for a vote, and it was unanimous: Michael Miebach, a global citizen, strategic doer, savvy talent manager, and constant learner, was our guy.

Of course, when you're dealing with something as sensitive as a CEO appointment, that means you have a consensus, not an official decision. The former allows you to iron out further details. The latter obliges you to inform the people involved immediately and make public announcements. The next piece of the puzzle was our own succession. Rick was ready to step down, and Ajay was willing to take over. We knew that all our finalists were happy about that; their strategic views were sufficiently aligned with Ajay's to avoid philosophical clashes, and he would be a great help to the future CEO in transition. We also knew it was a move that the market would respect. The board elected to proceed with that plan, having considered a range of alternatives.

On February 22, 2020, just before the pandemic spread around the world, we finalized our decision to appoint Michael as Mastercard's next chief executive. Rick met personally with him and with each of the other three candidates to inform them. Michael was obviously delighted. And although the others were disappointed, they were accepting and assured us that they would stay on and move forward as a team. As of this writing, they remain with us, and we could not be more proud of the way they and the entire organization, led by Michael as CEO-elect, performed through 2020 before his official ascension to the top job in January 2021.

CEO SUCCESSION DECISIONS are never easy. But they are made much less difficult if you start the conversation extremely early and stick to certain rules. Consider a broad pool of your own employees first. Involve the entire board and the outgoing CEO. When identifying the type of leader you want to hire, solve for tomorrow. Overinvest in candidate development, especially the top tier. Consider the best talent outside your organization too; that will inform your thinking. Finally, encourage impartiality until the moment the directors will debate their way to a decision. In the end, of course, you want the CEO you choose to be exactly the right person for the job. And you want everyone else involved to accept that it was exactly the right decision for the company. Our hope is that we've achieved those goals at Mastercard.

HBR Reprint R2102A

Harvard Business Review

The Big Idea Series on HBR.org
Timely topics explored with extraordinary depth and insight. Subscribe and get full access to the archive.

hbr.org/big-ideas

Combating Burnout
Work, Parenting, and the Pandemic
Do We Really Need the Office?
Leading Through Anxiety
The Business Case for Saving Democracy
Toward a Racially Just Workplace
The Power of Hidden Teams
When No One Retires
The Case for Good Jobs
Divided We Lead

Spotlight

HOW LEADERS CAN DRIVE SALES

Illustration by **MARCEL CEUPPENS**

56
82
MR 29 '61
THREE
70
67

AUTHORS

Noel Capon
Professor, Columbia Business School

Christoph Senn
Adjunct professor, INSEAD

SPOTLIGHT
HOW LEADERS CAN DRIVE SALES

When CEOs Make Sales Calls

How top-management involvement in B2B relationships can drive—or kill—deals

SOME YEARS AGO a top executive at a global chemical firm—we'll call him Robert—decided to meet with one of its major customers. He was new to the company, and being unfamiliar with both the customer's challenges and his firm's initiatives, he left a bad impression. Making matters worse, he offered to increase production capacity for the customer during spikes in demand, with no restrictions—a promise his firm couldn't keep. The account manager, Nadine, learned about the meeting and the promise only later, from her contacts at the customer. The result: a relationship that remains badly damaged despite heroic repair efforts by Nadine and her team.

At about the same time, the pharmaceutical giant Merck decided to outsource its data-processing system. After evaluating proposals from several potential suppliers, the managers tasked with making the selection were in agreement: The contract should go to Accenture. But shortly before it was to be signed, Merck's CEO received a visit from Sam Palmisano, the CEO of IBM. Palmisano had risen through the ranks of IBM's sales force and had implemented the firm's Integrated Accounts Program, which focused on core strategic customers. He fully understood the benefits of nurturing and leveraging executive-level relationships. Merck awarded IBM the contract.

Most executives see spending time with customers as a way to stay abreast of the market and as part of their job. By engaging with strategic customers—those critical to their firms' future—senior leaders at B2B suppliers can have a significant impact on their companies' revenue, profits, growth, shareholder value, and very survival. They often serve as executive sponsors for key customer relationships, much as they do for IT initiatives and other internal endeavors. But as the examples above demonstrate, and as we have seen in our own research and consulting work with global sales organizations, the results of their involvement vary widely.

To study the influence of CEOs and other leaders on sales more closely, we began by talking with top executives of B2B companies about their contacts with major customers. The vast majority reported extensive interactions and positive results. But when we interviewed the relevant account managers, they told quite different stories. We realized that the executive interviews suffered from a strong self-reporting bias and that we needed to shift tactics. So we conducted 30 executive education workshops with 515 strategic and global account managers in New York, Rotterdam, St. Gallen (Switzerland), and Singapore from 2012 to 2018. On the basis of that work, we identified five distinct roles that senior

Illustrations by NAZARIO GRAZIANO

Account managers have a name for executives who meet with customers without any briefing or debriefing: seagulls. They fly in, make a lot of noise, leave a mess, and fly off.

executives play in relation to strategic customers. In this article we discuss those roles, their rewards and risks, and the impact each has on business performance.

The Five Types of Involvement

In their interactions with customers, top executives have two core objectives: to increase revenue and to foster strong and enduring relationships. The five types of executive involvement yield different outcomes for those objectives.

Hands-off, or "not my problem." It's not uncommon for senior executives to adopt a hands-off policy with sales: Fully 28% of those in our study did so. After all, they have their own responsibilities; competitive pressures are continually increasing, and most executives must do more with less. "I typically do not see customers," the CEO of a large manufacturing company told us. "That's what the sales force is for. Our products and solutions are world-class, and we have one of the strongest R&D groups in the industry. If only our account managers would do a better job of selling our value to customers!" Perhaps unsurprisingly, this executive is no longer with the organization, and a competitor has since acquired the firm.

The motto "Let the sales force do its job" sounds eminently sensible. The human resources function should do its part, hiring the best talent to direct and manage the selling effort, and senior sales executives should ensure that salespeople have the tools and training to meet their goals. If results fall short, the remedy is clear: The sales team should make the appropriate process and personnel changes. "We don't expect top marketing and operations managers to get involved in finance," hands-off executives often tell us. "So why should any functional leader, much less the CEO, get involved in sales?" The assumption underlying such comments is that at a high level, all functions are equally important. But our work with companies around the world suggests that the sales unit is more equal than others. Sales is a boundary role; it's the critical interface between supplier and customer.

Boundary-spanning positions are inherently stressful. They are characterized by ambiguity and conflict over roles, work overload, and customer and ethical demands, so it's no surprise that executives often choose a hands-off role. Moreover, many senior managers mistakenly believe that they can't add much value to the selling effort, making the added stress of taking on a customer-facing role seem like a wasted investment of time. But as our example involving Sam Palmisano demonstrates, they can indeed make a big difference—and a hands-off approach may represent missed opportunities. When the sales organization underperforms, revenue lags and everyone's budget suffers. When top managers give sales a boost, all functions benefit.

Loose cannon. A leader in this role typically meets with major customers without soliciting information or background from their account managers, who may not even know the meeting is happening (or, in the most egregious cases, that it has happened). Robert, the executive described earlier, is a classic example. He set up the customer meeting himself and committed the firm to actions without any awareness of the intricacies in the two companies' dynamics. Executives taking this approach—21% of those in our study—succeed at neither of the core goals; their efforts rarely grow revenue, and they are more likely to damage than enhance the

IDEA IN BRIEF

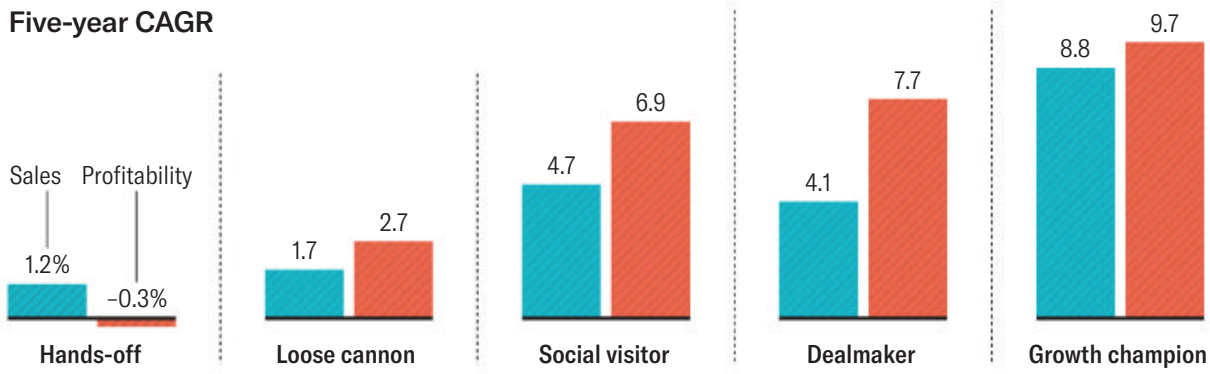
THE SITUATION
By engaging with strategic customers, CEOs and other top executives at B2B suppliers can have a significant impact on their companies' revenue, profits, growth, shareholder value, and very survival. But results vary widely.

THE TYPES OF INVOLVEMENT
Leaders play five distinct roles in relation to strategic customers, depending on the degree to which they prioritize relationship building and revenue gains. Some take a hands-off approach; others are loose cannons, social visitors, dealmakers, or growth champions.

THE GOAL
Leaders should strive to be growth champions for core customers whenever possible. Those who succeed will reap enormous dividends for their companies and their customers alike.

Reaping the Rewards

Comparing the five-year compound annual growth rates for sales and profits at the 515 companies in our study shows the gains realized by social visitors, dealmakers, and especially growth champions.



customer relationship. An account manager at a global technology-outsourcing firm told us, "I had been working my account for two years, gaining trust and making steady progress, and then it all fell apart. A corporate executive made an appointment with my customer's top management without letting me know and without any briefing or debriefing. He had no idea what was going on with the customer; the meeting set us back at least a year."

Account managers have another name for these executives: seagulls. They fly in, make a lot of noise, leave a mess, and fly off, maybe or maybe not returning to the same spot. The senior sales executive at a major Canadian financial institution told us, "We don't have isolated seagulls; we have a whole flock of them!"

If such interactions are so damaging, why are they so prevalent? Our workshops revealed that loose-cannon executives generally think they are being helpful; they see themselves as opening the doors to customers' executive suites. That's true in principle; but to actually be helpful, they need to forge strong working relationships with the account managers, enlisting their help in preparing for customer visits.

The good news is that most of the companies in our study that reported loose-cannon behavior also told us they were implementing processes to mitigate it, with reasonable success. The most effective approaches include strategic account management, whereby well-trained executives oversee critical customers; clear definition of roles and responsibilities and a process for briefing and debriefing executives for all customer visits; and an executive sponsor program for those who will be interfacing with major customers. Robert's firm learned an important lesson from his ill-fated visit: Today its top executives are prohibited from visiting customers alone except under special circumstances and with proper engagement with account managers before and after meetings. The firm also put in place a central tracking system to ensure that no senior management visits are made without evaluating alternatives and to capture the results of all visits for use in future customer meetings.

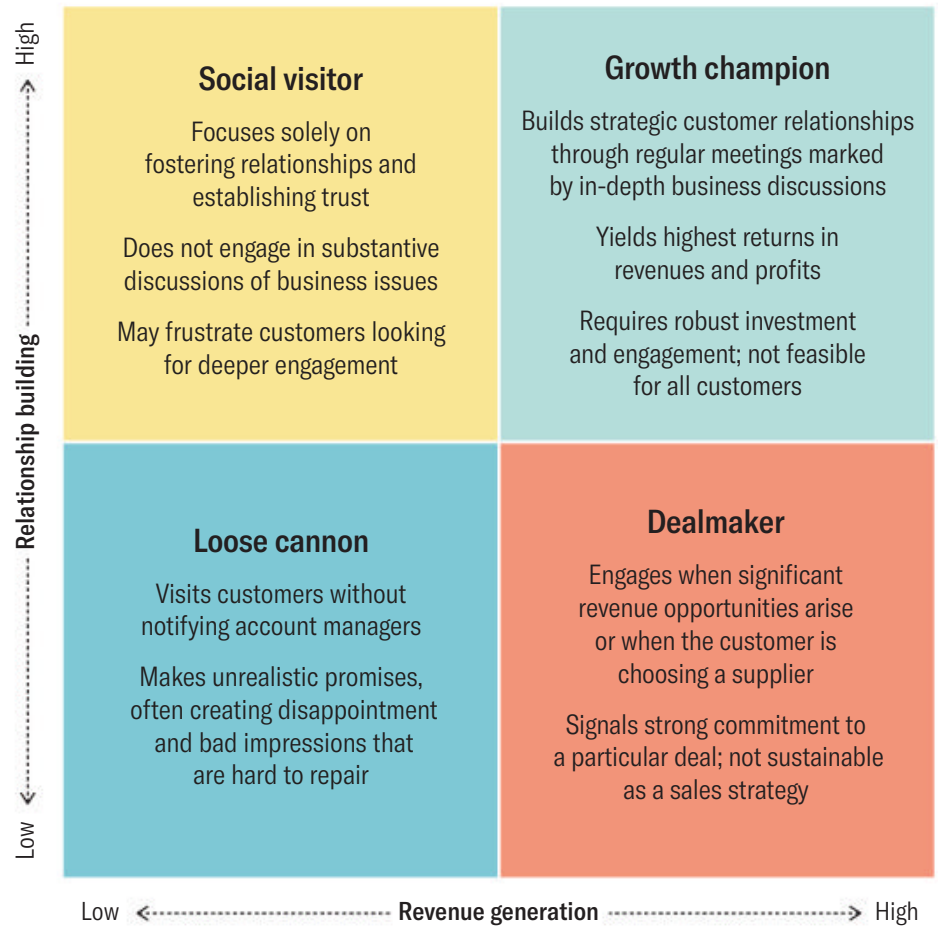
Social visitor. Executives in this role—19% of those in our study—seek to build personal relationships with the customer rather than directly generate revenue. They focus on demonstrating their firm's commitment and creating trust. They specialize in meet-and-greets, often arranging educational events on the customer's premises, cocktail parties at trade shows, trips to marquee sporting events, and the like. The social visitor works the crowd but rarely delves into substantive discussions about business; indeed, spouses often attend the mostly social gatherings.

Although much less destructive than loose cannons, social visitors come with their own risks, and their impact ranges from mildly positive to mildly negative. Customers typically look forward to the planned events and leave with pleasant feelings, so the interactions generally do enhance personal relationships. But if customers perceive that executives are interested only in schmoozing or in posing for a photo at the signing of a big deal, they may become frustrated by the lack of depth in the relationship—especially if competitors are engaging with them on a more meaningful level.

The CEO of a Europe-based engineering firm frequently met with customers at trade shows and social events. After some time he accepted an invitation to visit one customer's U.S. headquarters—on the face of it, a useful move. But although he advised the account manager of the visit, he decided to make the trip alone. The customer's CEO, accustomed to

Executives Who Engage

Senior leaders in the four active roles emphasize relationship building and revenue generation to varying degrees (a fifth group, hands-off, chooses not to interact at all).



productive visits from high-performing suppliers, awaited him with an entourage of innovation leaders, logistics experts, and purchasing managers in tow. Clearly surprised, he said to his visitor, "Good to see you, but where on earth is your account manager and her team?" For this customer CEO, as for many others we have spoken with, a purely social relationship, without the participation of the account manager, was not enough.

And if treated too casually, a social-visitor approach can quickly turn into a loose-cannon situation. One supplier in the beverage industry had enjoyed a long-term relationship with an important customer when a new executive sponsor came on board. The account manager scheduled an introductory meeting with the customer's top management. But the executive sponsor postponed the meeting three times, citing minor reasons. In frustration, the customer turned to a more attentive competitor and opened discussions on next-generation packaging design, resulting in a huge revenue loss for the supplier.

Dealmaker. Executives in this role are highly focused on revenue and only marginally concerned with relationship building. In our study, 18% of executives fell into this group. Sam Palmisano represents an extreme form of dealmaking behavior; let's look at a more typical example.

A global coating-systems manufacturer had contracted to supply eco-friendly, cost-saving production technology to a leading German automotive firm. Although the technology had performed well in laboratory and field tests, the supplier could not stabilize it on the customer's main production line, and the contractually agreed-on time frame for implementation was coming to an end. So after speaking with the account manager, the supplier's CEO visited both the customer's headquarters and the production facility and secured an extension. With the extra time gained, his firm was able to solve the problem on-site, and the deal was rescued.

Such engagement may be necessary to close a deal. When a customer is considering whether to sign a contract, the make-or-break issue is often not the value proposition offered by the account manager but whether the supplier is likely to live up to its commitments. An account manager's promises are of limited reassurance; only a senior executive, and sometimes only the CEO, can fully commit the firm's resources. The same is often true of customers making buying decisions: Middle managers negotiate deals and make recommendations, but senior managers have the final word on which supplier to choose. (Recall how Merck's CEO overruled his advisers in signing with IBM.) We have observed cases in which a customer's top manager intervened in the buying process and reversed a middle manager's decision, even accepting penalties to void a signed contract with an unwanted supplier.

But the dealmaker approach, too, comes with risks. If negotiations are frequently escalated to the executive suite, upward delegation may become the norm—an unsustainable way of doing business. And while the senior executive team can certainly be invaluable in closing especially sticky or crucial deals, customers may become frustrated by numerous requests for "rush" meetings.

To master the dealmaker role, internal coordination is crucial. Yet with their focus on revenue rather than relationships, dealmakers may neglect communication with key players in their own companies, sometimes leading to costly mistakes. At a global manufacturer of materials for the paint industry, the dealmaker of one business unit terminated an R&D project being conducted in collaboration with

a customer because he deemed the potential revenue—€300,000—to be insufficient. In doing so, he failed to consider the €20 million in revenue the project was expected to generate for a sister business unit.

A dealmaker must stay in constant communication with account managers and protect their role in the process. In their zeal to secure business, dealmakers sometimes go overboard in offering concessions. If customers suspect that deeper discounts are available from higher-ranking executives, they may bypass their account managers or demand that the dealmakers be involved in every negotiation. Consider the extreme measures one account manager resorted to when his division president decided to accompany him to close an important deal. "Shortly after the meeting started, the customer pushed for significant price reductions," the account manager told us. "The division president was so focused on winning the deal that he was about to agree—which would have cost us more than $2 million in profits. I didn't know how to stop him, so I faked a heart attack. The meeting ended, and a few weeks later I negotiated a much better price."

Growth champion. This role demonstrates the most productive customer-facing behavior. Leaders in this group have a keen focus on both relationships and revenue building, and as they unlock growth opportunities, they serve as role models for others in the organization. Unfortunately, the smallest share of executives in our study—just 14%—fit this profile.

John Chambers, the CEO of Cisco for many years, was a growth champion for the company. He had learned the ropes of customer interaction as a sales rep at IBM and served as Cisco's senior vice president of worldwide sales and operations before taking the helm. He frequently accompanied account managers on client visits and would solicit immediate feedback on what he could do better to enhance the value he offered to customers. He also leveraged the firm's technology to interact with customers virtually, long before Covid-19 made videoconference calls commonplace.

To be effective growth champions, supplier executives must become directly involved with strategic customers over and above the demands of their day jobs, and they must adopt the customer's perspective, even attending customer strategy sessions. Growth champions support processes aimed at improving business performance, such as the use of customer profitability metrics and best-practice systems. Perhaps most important, they pave the way for cultural change: Others in the organization model their behavior on that of growth champions, often becoming more customer-centric themselves.

Growth champions are willing to break internal barriers (and sometimes actual rules) in their pursuit of long-term customer success. In a significant downsizing, IBM laid off an experienced engineer who had provided critical tech support to a key account. The account manager realized that losing this team member would severely weaken IBM's position with the customer, so he contacted his "partnership executive," IBM's term for executive sponsor. The PE could not undo the layoff, but he agreed to retain the engineer as a consultant and secured the necessary funding. The engineer served in that capacity for a dozen years, boosting the revenue from several strategic customers.

However, growth champions, too, have their downsides: They can be prone to patronizing behavior and micromanagement, especially if they were once sales executives or account managers themselves. A top executive at a Japanese IT firm was enthusiastic about supporting a particular customer's account manager and his team, scheduling weekly calls to monitor progress and drive growth. These actions put immense pressure on the account manager, who told us, only partly in jest, "It's all well and good to have such a committed executive, but I always look forward to when he's on vacation!"

To avoid such pitfalls, companies should establish clear rules of engagement, specifying roles and responsibilities for account managers, sales team members, executive sponsors, and the C-suite. We also recommend that companies routinely solicit growth champions' insights and evaluate them in the context of corporate strategy, using them as a reality check; they may reveal a need to course-correct. A European pharmaceutical firm went to great lengths to get closer to its customers through an initiative in which high-level executives were assigned to personally support actions at strategic customers. During a management review, the account managers of the top 10 customers presented the insights resulting from the initiative—which indicated that the firm's corporate strategy was detached from customer realities. "We heard that nine out of 10 customers are

going to pursue a strategy that is not at all aligned with our offerings," the CEO said, asking rhetorically, "Who has to change—us or them?" The firm made significant alterations to its own strategy (and strategy-making process) and saw significant growth as a result.

Finding the Right Roles

Having identified the five types of top-management involvement, we sought to understand how each affects financial performance. We compiled five-year growth rates for sales and profits for each company in our study, drawing on SEC filings and other publicly accessible databases. A CEO's style in dealing with customers is just one variable that affects growth, of course, but among firms with hands-off and loose-cannon executives, both sales and profits were generally flat. Social visitors and dealmakers delivered growth rates that were, on average, two to three times those of their hands-off and loose-cannon counterparts—and growth champions drove growth at twice the rate of social visitors and dealmakers, making them far and away the most effective group.

Does this mean that every high-level executive should act as a growth champion in every interaction with a major customer? Not necessarily. Suppliers should build growth-champion roles for strategic customers whenever feasible, but if a customer resists such collaboration, the supplier executive should adopt a dealmaker or a social-visitor role and focus on executing it to the fullest extent possible.

Supplier executives should take context into account before deciding on their approach. They should consider each customer's behavior, the importance of the customer to the supplier and vice versa, and the characteristics of the customer's buying process. If a customer conducts itself in a purely transactional manner, investing in a growth-champion relationship may indeed be a waste of resources; a dealmaker—even one at a lower organizational level—might obtain equally good or better outcomes in the short term. Certain customers may lend themselves to a more opportunistic approach using social visitors. But over the long term, most suppliers will benefit from moving their customer relationships to the next level. Some of the most successful executives we know began their customer interaction journeys as social visitors or dealmakers, eventually evolving into growth champions. We have worked with others who assume the growth-champion role for their most important customer relationships while remaining social visitors or dealmakers with others.

The bottom line is that CEOs who eschew the growth-champion role with strategic customers are putting their companies at a disadvantage. If a customer seeks collaborative engagement beyond social-visitor or dealmaker discussions and the supplier fails to step up, the customer may well turn to a competitor to shape its future.

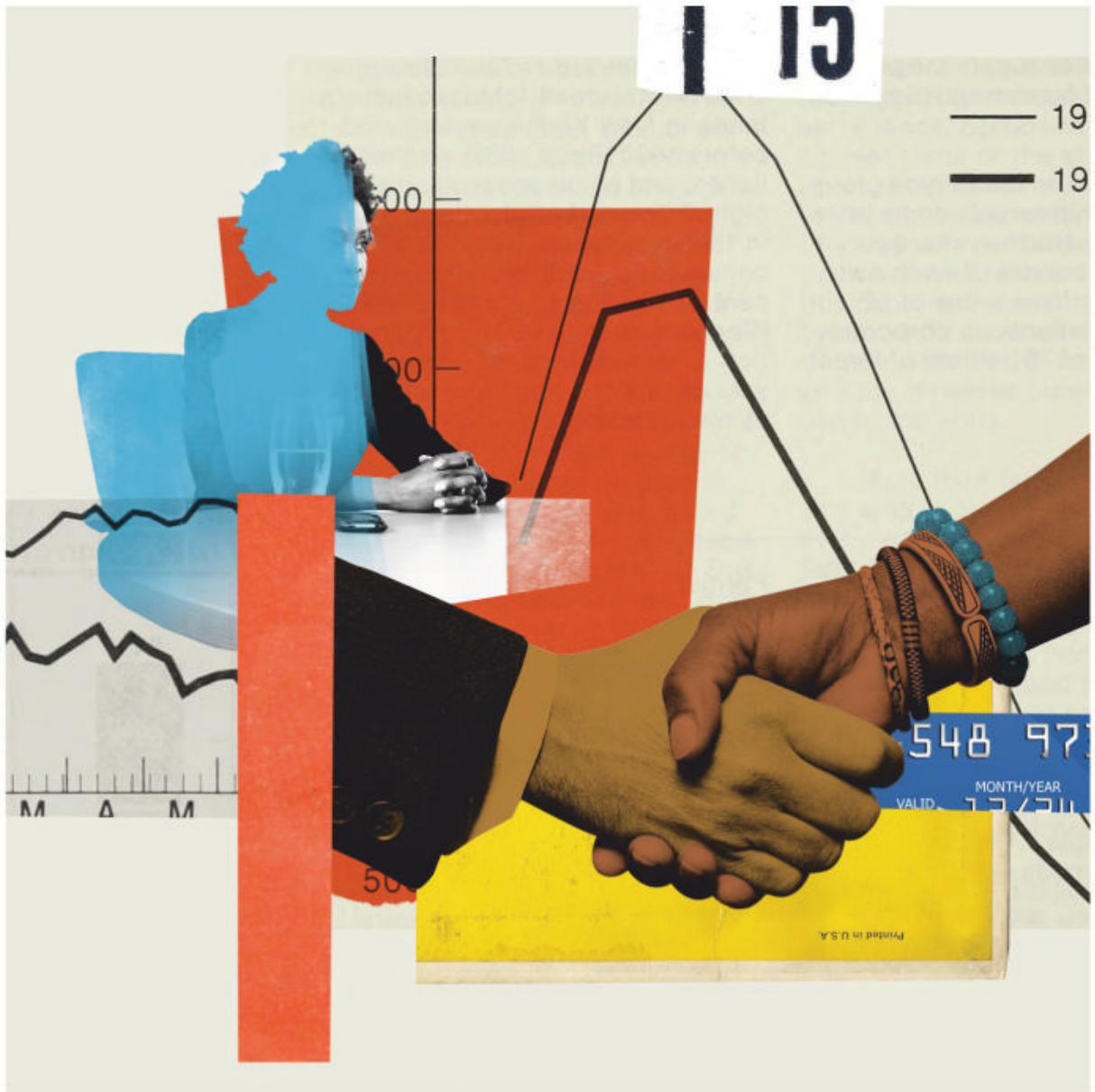
Making Your Growth Strategy Work

We recommend that companies conduct an annual review of each strategic customer relationship and assign growth champions according to long-term business potential rather than current buying behavior. Executive team members must venture outside their comfort zones to assume unfamiliar responsibilities—and help managers throughout their companies do the same. Consider Henkel, a Germany-based consumer packaged goods manufacturer that was locked in tough competition with Procter &

What Makes a **Growth Champion?**

On the basis of our research, we've sketched a profile of essential traits, which organizations can use to spot such leaders in their ranks.

1. **Compatibility**
   Achieves a close personal fit with both customer executives and the account manager
2. **Availability**
   Is responsive to customers and the account manager and sales team; no excuses
3. **Initiative**
   Is willing to go above and beyond, to adopt the customer's perspective, and to break internal barriers in the service of long-term customer success
4. **Knowledge**
   Has an in-depth understanding of the firm's and the customer's strategy and capabilities
5. **Communication skills**
   Can "speak the language" of the customer, sales teams, and functional experts
6. **People skills**
   Is committed to strong teamwork, coaching, and listening
7. **Results orientation**
   Has a history of meeting or exceeding objectives



Gamble and Unilever. Its siloed brand strategy limited its ability to interact with customers across its full product portfolio. So shortly after becoming CEO, Kasper Rørsted instituted a "meet the customer" program for top managers across all brands. He also launched a competition among senior executives, tracking their customer-focused activities. Customer interaction reports soon became a regular item on the agenda of management meetings, and senior executive visits to customers dramatically increased in number and effectiveness.

Supplier companies should also have an executive sponsor program. These can take many different shapes: Some are highly structured and metrics-driven; others are informal arrangements between top managers and the sales organization. But the most effective programs have certain assumptions in common. They recognize that executive sponsorship is a priority, not an optional activity; that sponsors should commit to two- to three-year assignments to ensure consistency and depth; and that sponsors are not the owners of the customer relationship and must consult with account managers before and after customer visits. Such programs should not be set in stone; they should be evaluated and adjusted as customer needs or the supplier's own priorities evolve. For example, centralized management and coordination of a sponsorship program may become more important as a small supplier grows to a midsize or large enterprise and its relationship management issues multiply in complexity and number.

Surveying our workshop participants, we learned that companies with an executive sponsor program had a significantly higher share of growth champions among their top managers (26%) than did firms without one (just 4%). They also reported a heightened awareness of the importance of top-management involvement in customer interactions and a more systematic approach for strategically applying the most effective executive roles.

A final recommendation: Companies should bear in mind that not all senior executives make good executive sponsors. The logistics giant DHL, for example, recognizes the importance of a strong match; its account managers may request a different executive sponsor if the dynamic is not working well, as long as they can cite a solid reason for the request.

TOP-MANAGEMENT INVOLVEMENT IN B2B customer relationships can pay enormous dividends for suppliers and their customers. One of our workshop participants summed up the challenge succinctly. "It's the responsibility of account managers and their teams to manage the customer's share of wallet," he told us. "The role of senior management is to win the customer's mind." Becoming more customer-centric is not just another project for top executives to put on the to-do list; it is an essential part of growth and a fundamental driver of success.

HBR Reprint R2102B

NOEL CAPON *is the R.C. Kopf Professor of International Marketing at Columbia Business School and a member of the board of directors of the Strategic Account Management Association.* **CHRISTOPH SENN** *is an adjunct professor of marketing and a codirector of the Marketing and Sales Excellence Initiative at INSEAD.*

AUTHOR

Doug J. Chung
Associate professor, Harvard Business School

How to Shift from Selling Products to Selling Services

It takes different skills and a different focus.

WHEN SATYA NADELLA became CEO of Microsoft, in 2014, the company relied on a tried-and-true sales model that had helped make it one of the world's most valuable companies. The amount of money Microsoft charged organizations for its products was based primarily on head count. Every computer-using employee needed a seat license, and Microsoft's salespeople wrote up contracts (typically for three years) that multiplied the number of seats by the annual cost of the software. Once a deal was signed, the salesperson collected the commission and moved on to the next customer. Many B2B tech firms use a similar model, which some describe as "thank you and see you in three years," since salespeople have little reason to call on a client again until the account is up for renewal.

As the new CEO, Nadella wanted to transform Microsoft's core business and the way it priced and sold its wares. Instead of selling licenses and relying on

Illustrations by THOMAS HEINZ

Microsoft's traditional "Windows first" strategy, he envisioned a "cloud first" model that would convert many of the company's products into software as a service—known by the now-ubiquitous acronym SaaS. The SaaS model bases fees on consumption, similar to how utility companies charge households for water or electricity. The more the customer uses, the higher the bill. Nadella recognized that this transformation would require not just a change in strategy but an entirely new mindset about the sales function.

In my classes, I teach that most sales strategy and management decisions revolve around three issues: *how* to sell *what* to *whom*. The shift from selling products to selling services requires leaders to rethink not just the what (services instead of products) but also the who (the types of customers the sales force pursues) and the how (the way salespeople engage with customers before and after the sale, the new skills necessary for the job, and how they are trained and compensated). That's a tall order, and many tech firms have seen waves of sales force reorgs and downsizings as they struggle to fill it.

Drawing on my research, on interactions with industry veterans who attend my executive education classes, and on an in-depth case study I did with Microsoft, I have identified the steps companies must take to successfully move to a consumption-based model. Although tech companies are the most prominent examples, the guidance applies to any organization making this leap. Daimler Trucks, for instance, is shifting from leasing vehicles to large companies, such as UPS, for set periods of time to charging them for miles driven. The prescriptions—which involve resegmenting the customer base, rethinking the sales organization's structure, and changing the way salespeople interact with customers and targets on a day-to-day basis—enable companies to transform their sales forces to most effectively support the new strategy.

STEP 1

Rethink Customer Segmentation

Among large B2B companies, the most common way to organize a sales force is by the size and potential of the customers. Enterprise accounts are typically the customers with the highest head count (and the largest number of seat licenses); as such, they are the highest priority and are handled by the best salespeople. Small and medium-sized enterprises (SMEs) are often seen as less-attractive targets and thus have fewer resources devoted to them. Sales organizations may spread a single salesperson across many SMEs, for example, or assign the accounts to inside salespeople (who work by phone and online instead of making in-person visits).

The shift to SaaS can upend that logic. Consider a simple example involving Netflix. The streaming video company has 8,600 employees—a fraction of the head count of truly large enterprises. In the old world of B2B selling, Netflix's size might make it a less-attractive prospect. But imagine you're selling cloud services, which are priced according to data usage. Storing thousands of movies and streaming them to millions of customers requires enormous data capability; during the first half of 2019, for example, Netflix accounted for 12.6% of all internet traffic. When it comes to consumption of cloud services, Netflix, despite its relatively modest head count, is a behemoth.

To effectively shift to selling a service, salespeople and their managers must rethink the metrics that identify a potential enterprise client. This is more difficult than it may seem. Judging how large a company is by traditional metrics is fairly easy; assessing how employees use (or might be persuaded to use) services such as cloud storage and software isn't. But new metrics for software-as-a-service are emerging: Some companies, for example, look at the number of cloud engineers employed by a target client (which can be estimated using resources such as LinkedIn); others focus on the potential cloud usage of the target client's end customers.

STEP 2

Restructure the Sales Organization

Rethinking customer segmentation focuses on the question: Who are the company's target customers? Once they are identified, the sales organization must focus on how to sell to them. The traditional sales process typically involves generating leads, qualifying prospects, demonstrating products, and closing sales. Many salespeople have spent decades learning and implementing that routine. A consumption-based model requires a different process. "Closing the deal" becomes an interim

Although salespeople still must be skilled at building relationships, the new approach requires them to have far more technical expertise.

step because the contract will generate substantial revenue only if the client subsequently uses the service at high volume. The industry's euphemistic term for this is "customer success," and it has begun to dominate the way companies think about selling. As Microsoft's chief financial officer, Amy Hood, puts it, "Ultimately, in a consumption-based business, customer success is all that matters, because it builds on itself over time."

To drive that success (that is, to increase customer usage), salespeople must stay engaged after the contract is signed. They become quasi consultants to their clients, helping them grow adept at using (and finding new ways to use) the metered technology. Although salespeople still must be skilled at building relationships, the new approach requires them to have far more technical expertise. Many companies, including Microsoft, have supplemented their sales teams' technical prowess by creating "customer success teams" and "technical sales teams" to drive consultative work after a customer signs a contract. Companies have always provided after-sales service as a cost of doing business; these new functions illustrate how this unglamorous task has become a vital part of generating revenue.

The benefits of having highly skilled cloud engineers as part of the sales organization go beyond increasing revenue, however. One result of the shift from selling products to selling services is that the relationship with customers becomes both closer and more continuous. That gives sales teams deeper, ongoing insights into customers' pain points, product features that might add value, and new ways to use products. This is valuable feedback that companies can use to spark innovation—a source of information that was rarely tapped in the old "see you in three years" model.

STEP 3

Use Sales Force Management Instruments to Drive the Right Behavior

Setting a strategy, segmenting the customer base, and creating the right organizational structure are big-picture requisites to a successful transformation of the sales function. To influence how salespeople interact with customers and targets on a day-to-day basis, sales managers must use the set of tools I call sales force management instruments: Hiring the right people, training and managing their performance effectively, and compensating them in a way that aligns their incentives with company strategy. Managers must also create a culture of performance and collaboration that reflects the change in strategy.

Hiring. Under the old models, engineering was an internal-facing role. As cloud engineers become an integral part of customer success and technical sales teams, hiring managers must identify applicants who have both technical skills and the emotional intelligence to succeed in a customer-facing role. Sometimes this requires dramatically revamping a company's talent strategy. In its early days, Qualtrics, a Utah-based company that provides online survey tools, hired mainly young graduates from nearby Brigham Young University and put them through a sales-training program. As it shifted to a SaaS model and began selling more-sophisticated solutions to enterprise clients, it needed to recruit seasoned salespeople with the right blend of skills.

Companies typically worry about whether their technical employees are adaptable enough to make the shift to a customer-facing role. But the problem tends to lie more with salespeople, who often struggle to master their increasingly technical job requirements. "It is necessary and inevitable to terminate people who cannot or are unwilling to transition to the new sales model," says one Microsoft executive. "It's a leadership call."

Compensation. Companies spend about $200 billion annually on sales compensation (approximately the same amount they spend on advertising) for a simple reason: A well-constructed comp plan significantly improves salespeople's behavior. To make the most of those dollars in a services model, firms should peg quotas to the outcome of interest—for instance, cloud consumption. As sales roles become more differentiated, pay plans should too. For instance, at Microsoft, customer success and technical salespeople's incentive pay are more closely linked to consumption, whereas traditional field salespeople still receive incentive pay for closing deals. Deciding how frequently to reset quotas and finding the right ratio of fixed to variable pay are also issues managers should consider. (For best practices on this subject, see my 2015 HBR article "How to Really Motivate Salespeople.")

Most of us do not like change, and salespeople are no different. In the

absence of a major upside, they prefer the status quo. A company should refine its compensation model to give salespeople the incentive to change their behavior so that it aligns with the firm's new sales strategy. Companies that do not sufficiently rework their pay plans when they shift to selling services will see reduced motivation and effort from their sales teams.

Training and performance management. Research by Thomas Steenburgh and Michael Ahearne shows that most sales training focuses too much on product demos and not enough on consultation, problem-solving, and case studies of how other customers are successfully using a product. These aspects of training become even more vital in a consumption-based sales model, because the back end of the sales process (after closing) drives the lion's share of revenue. Salespeople need to have the skills to identify cloud-usage potential and show customers how to add value by using the service. This type of training is more complex than coaching salespeople on how to counter objections or close.

In my experience advising sales organizations, the most common training problem I've witnessed is that managers, overburdened with administrative duties, don't spend enough time with salespeople in the field observing their performance. Managers must realize that asking salespeople to be responsible for how a customer uses a product after a deal closes requires a radical shift in how they do their jobs. Amid this type of change, having a manager alongside to coach and offer feedback will increase the odds of success.

Culture. There's a well-known saying "Culture eats strategy for breakfast." Because people tend to be averse to change, leaders must remember that culture typically works against any shift in management strategy. This is certainly the case when companies move from selling products to selling services. It's extremely difficult to change established norms of day-to-day behavior; in addition to using the levers of hiring, compensation, and training, managers must put in considerable effort to change employees' fundamental mindset.

At Microsoft, Nadella emphasized a growth mindset, inspired by Carol Dweck's book *Mindset: The New*

Psychology of Success. The transformation focused on creating a dynamic learning environment—one in which the sales force shifted from a "know it all" to a "learn it all" culture with help from others. The corporate mission statement was also reimagined to reflect the new culture. For decades, Microsoft's goal had been to place "a computer on every desk and in every home." Under Nadella, the focus shifted from the product itself to helping people use it: "To empower every person and every organization on the planet to achieve more."

IN DEVELOPING A new offering, a company needs to first identify the potential customers' pain point. Only then can it determine whether the customers' pain is sufficient to make the company's value proposition viable. These calculations are important, but they are not enough to create sustainable profit: The firm must also find the right sales strategy to effectively pair with the innovation to engage customers.

As more organizations shift their sales strategy toward consumption-based pricing and SaaS models, they must recognize the complexity of the transformation they are attempting. They are changing all the variables in the formula "how to sell what to whom." To increase their odds of success, firms must be ready to rethink their sales management and strategy the same way they reengineer their products.

HBR Reprint R2102B

DOUG J. CHUNG *is an associate professor in the marketing unit at Harvard Business School.*

Selling After the Crisis

Senior executives must understand how dramatically the process needs to change.

AUTHOR

Frank V. Cespedes
Senior lecturer, Harvard Business School

Illustrations by **MARCEL CEUPPENS**

THE PANDEMIC AND resulting recession have brought cascading business bankruptcies, higher debt loads, tighter budgets, and more-prolonged purchasing decisions for the foreseeable future. In recovering from the crisis, the effectiveness of sales efforts will be of strategic importance for companies. Yet many senior leaders are out of touch with the activities of customer-facing colleagues and don't recognize that their sales models are badly in need of updating.

Over the past 25 years, as business has become more complex, the number of executives reporting to the CEO has doubled, on average. But most built their careers in specialties such as IT, finance, engineering, or legal, and more executives in the C-suite (including the CEO) have made it there without deep experience in sales, according to Heidrick & Struggles' 2019 *Route to the Top* report. Rather than behaving like practitioners of the art of profit maximization, they often treat sales as a mysterious black box—essential for meeting quarterly targets but sealed off from strategy discussions. And many sales managers like it that way, because it makes their jobs easier.

But when C-suite leaders don't understand or lose touch with sales, they compromise their ability to develop and implement a market-relevant strategy. This disconnect is all too common, as Christopher Wallace, of InnerView, and I discovered in our 2016 survey of 700 senior executives, sales managers, and reps. Executives told us they had a firm grasp on strategic priorities but lamented deficiencies in most sales activities, including training, performance reviews, coaching, tools, recruitment, onboarding, and the fit of sales reps and managers with their roles. For their part, salespeople said that the C-suite understood neither the sales model nor required sales tasks. Reviewing their comments, we could see why "I'm from Corporate, and I'm here to help you" is a perennial punch line in many sales organizations.

The disconnects are not limited to the C-suite and sales. Few companies have adequately adapted their sales models to fundamental shifts in the way customers make purchase decisions. Buying has long been framed in terms of a hierarchy-of-effects model in which customers move from *awareness* to *interest* to *desire* to *action*. However, the AIDA formula and its variants—the basis (often unconsciously) for sales activities in most firms—is becoming less relevant as buyers work through their own parallel activity streams in making a decision. Consider buying a car. J.D. Power data indicates that U.S. auto buyers now spend about 13 hours researching cars online and just 3.5 hours at dealerships prior to purchase. Although the vast majority of cars are still purchased from dealers, customers' expectations of them have changed. Buyers now come armed with prices, product reviews, and other information, and more than 50% say they will leave the dealership if a test drive is required to get the vehicle's list price. Nearly 40% will not patronize a dealer whose website doesn't list vehicle prices (many still don't), and about 40% will leave the dealership if prices aren't posted on vehicles. Yet many dealerships still train salespeople not to discuss pricing until after a customer has taken a test drive or committed time to the process, increasing dissatisfaction and hurting revenue.

Effective selling requires an understanding of where customers are, how they navigate between various streams of activity, and when to interact with them. Most products and services are part of a wider usage system that affects purchase decisions. In B2B markets, buyers often must justify a purchase decision as they compete with others in their organization for a limited budget. Some of that combination of economics, integration, risk mitigation, and organizational politics can be handled by customers online, but most buying journeys require knowledgeable sales help. In other words, solution selling and account management still matter—but the activities they entail are changing. For example, customer references remain important, but the traditional lists provided by the seller of a few satisfied customers (whose recommendation might be more a function of a price discount than their experience with the product) no longer cut it. Customers increasingly turn to

sites such as PowerReviews, the SAP Developer Network, and Marketo's Marketing Nation for unedited versions of others' opinions, forcing sellers to offer more-compelling references.

Despite technology advances, most sales models are the ad hoc accumulation of years of reactive decisions made by multiple managers pursuing different goals. As companies try to rebuild revenue and profits in the wake of the recession, no single tactic (a particular selling methodology, "challenging" the customer, "digital transformation") will do. Senior leaders must set the foundational conditions for change; designing a sales model that aligns buying and selling is an organizational process, not a one-shot deal.

What Is Needed

Like perishable goods in grocery stores, any sales model has a sell-by date. Across a market life cycle, customers typically start as generalists and over time become more discriminating. As standards evolve and new entrants emerge, buyers have more choices and demand more in terms of quality and performance across vendors. Firms that fail to adjust to changing customer expectations lose advantage. Building and maintaining a relevant sales model—that is understood by everyone from executives in the C-suite to sales reps in the field—is the most important way that companies respond to market changes.

The sales model has implications beyond the customer, because it inevitably affects resource allocation across the business. For example, firms often rely on CRM systems that count up the number of leads and then forecast sales from that snapshot, assuming a certain percentage of those leads will turn into actual buyers. But the odds of a signed deal don't necessarily increase as prospects progress through the buying process—which means that many companies' revenue forecasts are likely to be flawed. Or consider financial management. In most firms, the biggest driver of cash in and cash out is the selling cycle, and accounts receivable are largely determined by what is sold, how fast, and at what price. Companies that do financial modeling based on a selling process that's no longer relevant will find that their financial projections are way off—a problem that extends far beyond the sales function.

A coherent sales model has three core components:

Customer selection criteria. Decisions about scope, or where you play in a market, are central to any business strategy and sales model. Time spent with the wrong targets increases SG&A, prolongs time-to-cash, and depresses a company's overall valuation. But in practice, scope is determined by sales call patterns—where reps' time and expense are allocated. Scope must also take into account opportunity costs. Money and time allocated to accounts A and B are not available for accounts C, D, and so on. Executives know that you can't be all things to all people, yet they fail to make this an explicit and managed part of their sales models. They basically tell salespeople, either directly in meetings or implicitly through compensation plans, to "go forth and multiply." With an eye to meeting their volume quotas, salespeople then sell to anyone, often at discounted prices, leading to lost revenue and damaged brand positioning. Profitable growth requires clarity about how to "separate the suspects from the prospects."

Consider TaKaDu, which sells software that lets municipal water systems identify leaks or bursts in pipes in real time. Water loss is a big problem globally, and few utilities are opposed to better management of that natural resource. But some are more motivated than others to invest in the software, depending on their transportation and treatment costs and whether they are penalized for leaks (as is the case in some countries) or can pass on the costs to consumers. In its early days, TaKaDu targeted any utility that collected data from sensors—a technical requirement for its software—as a potential customer. It found that 80% of utilities with sensors were willing to meet with TaKaDu sales reps, and of that 80%, about 25% expressed strong interest. And a quarter of those prospects actually signed a contract with TaKaDu. That might sound pretty good, but if you do the math—80% x 25% x 25%—you find that the firm converted just 5% of its prospects (one in 20) into paying customers and had to absorb the sunk cost of chasing the other 19. It was not until TaKaDu rigorously analyzed its customer base and clarified how it qualified prospects that it was able to scale profitably.

A company must also adapt its sales model as it pursues new customer segments. Software firms often start out by targeting small and medium-sized businesses (SMBs), which typically have a simplified buying process where the purchase decision maker is often also the

Most sales models are the ad hoc accumulation of years of reactive decisions made by multiple managers pursuing different goals.

budgeting czar. As software firms grow and begin selling to large enterprises, their sales activities need to reflect those customers' more-complicated buying processes. Decision-making is likely to be more dispersed, for example, and integration of the product across functions will take on greater importance. The basis for establishing credibility also shifts: Salespeople's knowledge of the software and its applications becomes table stakes, and understanding the enterprise customer's business model and how the software fits into it becomes paramount. Selling to enterprise customers also requires different ways of demonstrating ROI, the ability to shepherd large accounts through the buying process, and salespeople trained in postsales activities. Notice that these are changes to the sales model driven by shifting customer requirements—not by product updates.

One of the fundamental requirements of effective customer selection is a strategy that leaders can articulate; no sales model can make up for an inadequate business model. Senior executives must then make sure that the sales force is using lead-qualification criteria aligned with strategic priorities. They should engage with sales managers about their guidelines for prospecting, determining account or territory assignments, and establishing incentives, and they should discuss those criteria in senior management team meetings regularly—because to whom you sell influences where the firm invests and has a domino effect on

how resources are allocated across the company.

Clarity about your customers and their buying process. If all customers sound the same to you, don't try to make a living in sales. Customers differ dramatically in what they want from a product. Consider Oversight Systems, which sells software that monitors corporate purchase-card and travel-and-expense (T&E) spending. An estimated one in five employees submits at least one questionable expense item annually, and many routinely make errors in their expenses. Because most companies encounter this problem, reps might see their sales prospects as interchangeable—but they're not. Oversight's product covers a variety of use cases, even within the same organization. For example, a company's audit officer might be interested in the tool because she is concerned about reputational risk and compliance with regulations. Its T&E manager might seek efficiencies in handling a high daily volume of review and reimbursement transactions. Customers here are not simply "firms that spend a lot on T&E." Oversight specifies what problems potential customers are looking to solve and then adjusts its product, prospecting, and sales conversations accordingly. It has created a range of modules, branded as "Insights on Demand," each focused on a particular use case (T&E spend by region or function, Foreign Corrupt Practices Act compliance, duplicate-payment monitoring, and so on). This allows salespeople to better respond to and influence a variety of different buyers.

Customers also differ in how they respond to promotional actions. In many companies, affiliate marketing—referrals or sponsored posts by bloggers or content aggregators who may receive a commission for sales they generate—has taken on greater importance as TV viewership declines and ad-blocking devices increase. Before the pandemic, spending on affiliate marketing in the U.S. was growing faster than e-commerce sales. Estée Lauder reportedly spends 75% of its digital marketing budget on popular influencers such as Jaclyn Hill and Jeffree Star, who reach hundreds of thousands of followers via Instagram, Facebook, and YouTube. In many sales models, however, much of that spend is wasted by targeting prospects at the wrong time. For example, email continues to be a cost-effective way to deliver tailored messages at the right point in the buyer journey, but in many sales models reps send out emails indiscriminately—in effect training prospects to ignore their communications as spam.

Many executives try to make up for a lack of customer knowledge with unfocused appeals to "big data" and "AI." But data and technology are never a substitute for good management practice. Digital tools can help only if the C-suite asks the right questions before they are used. To improve clarity about customers, executives should start by asking the sales team: How do our target customers describe the problems or opportunities our company addresses with our products and services? What criteria do prospects use to evaluate sellers? Who gets involved in purchase decisions, and do those parties' selection criteria differ? Much of this information can be captured only in account reviews, and when reviews are sloppy, a vital flow of information is distorted. Senior executives need to manage this activity if they want "customer focus" to be an organizational reality, not a perennial slogan.

The go-to-market economics and metrics. The time and expense salespeople spend on various activities are key drivers of your growth requirements. "Wins" is the most common metric used to track selling performance, but wins (and losses) can be attributed to any number of activities in the sales model—product, pricing, selection criteria, sales deployment, incentives, and so on. Wins are also lagging indicators of growth, and in business the arrow of time points only forward. Conversion analytics can help to uncover leading indicators that you can use to improve your sales model, in two areas in particular.

→ ***Selling time.*** Most salespeople spend less than a third of their time interacting with customers. This represents a big opportunity. If you adjust your sales model to deploy reps where they have the most impact, you might increase their selling time by an additional 10% to 20%. In most businesses, that would dramatically widen the total addressable market.

When Microsoft looked at its sales teams' interactions with customers, it found that, on average, teams spent twice as much time and engaged with twice the number of contacts at higher-growth customers as at small accounts. On the basis of that insight, it analyzed the relationship between sales activity and revenue: Did the accounts have higher growth because sales spent more time with them, or did sales choose to spend more time with them because they were high-growth? Conversion data

Salespeople typically spend less than a third of their time interacting with customers. This represents a big opportunity.

showed that the more time and attention reps paid to customers—including lower-growth accounts—the better the results; in other words, the drivers of revenue were selling and account-management efforts. That insight led Microsoft to adjust its sales model, reducing the number of enterprise accounts per salesperson to allow more face time for each one across his or her account portfolio.

→ ***Mix of personal and online selling.*** Conversion analysis is also important for understanding the ROI of in-person and digital activities. For example, organizations typically measure how much time customers spend on their websites and track number of page views, using those metrics as indicators of positive engagement. But time-on-site numbers may be affected by a confusing or slow-loading website. New-visitor counts may be artificially boosted by the proliferation of devices among existing customers. In many sales models, credit for a purchase goes to "the last click"—that is, whichever email, online ad, or website page triggered the sale; in reality, purchases are usually motivated by a series of interactions throughout the buyer journey. Incorrectly identifying which activity led to a purchase can cause sales organizations to misallocate resources.

An effective sales model designates which in-person or online activities are appropriate for the various stages of the customer buying process. Early on, customers may not be ready to transact; thus content marketing, rather than a sales call, may be a better use of resources. At later stages, customers may seek ongoing engagement with a knowledgeable rep. Even when personal selling is desired, video meetings or other online interactions can accomplish many tasks while reducing time and travel costs, as the pandemic has demonstrated.

To make sure you're getting the most out of your in-person and online sales activities, take a fresh look at your sales model. Are you using ineffective or needlessly expensive resources for activities such as lead generation and demos? Are you optimizing inside sales resources to keep costs down and free up more-seasoned reps? A common assumption is that account size determines deployment: Use enterprise reps for larger accounts and inside reps for smaller ones. But a better approach is to deploy resources according to what the customer needs across the buying journey. Finally, consider the interactions between buying, pricing, and selling requirements. The sales cycle can shorten when you move to outcome-based pricing, as some firms did during the crisis. But the buyer, relevant value documentation, and sales conversations also change.

THE ORGANIZATIONAL SCHOLAR

James March said that "leadership involves plumbing as well as poetry," meaning that, whatever they do or say to inspire employees, leaders also must help people deal pragmatically with the tasks they face. All executives should recognize the implications of sales productivity in service economies. Thirty years ago in HBR, Peter Drucker presciently argued that "the most pressing social challenge developed countries face...will be to raise the productivity of service work. Unless this challenge is met, the developed world will face increasing social tensions, increasing polarization, increasing radicalization, possibly even class war." Drucker used sales as an example, noting that salespeople "now spend so much time serving computers [and] filling out reports rather than calling on customers....This is not job enrichment; it is job impoverishment. It destroys productivity." Since he wrote those words, the situation has only grown worse. In the face of a global downturn and pandemic, companies' ability to maximize sales productivity will be crucial; to succeed, senior leaders will need to craft sales models that account for how buyers actually behave.

The economist Benjamin Friedman has documented the moral benefits of economic growth—that is, a rising standard of living—on diversity, social mobility, fairness, opportunity for advancement, social progress, and democratic values. CEOs who talk about serving stakeholders should take note. Selling is not only a core profit-building activity for which you need not apologize (most profit is reinvested in the economy, yielding societal benefits such as cleaner products and job opportunities that can address inequality) and for which you are paid a lot to develop; it is also an engine of growth, value, and civic engagement. Finding ways to help their organizations sell better is, in fact, a core social responsibility of management.

HBR Reprint R2102B

FRANK V. CESPEDES *is a senior lecturer at Harvard Business School and the author of* Sales Management That Works: How to Sell in a World That Never Stops Changing *(Harvard Business Review Press, 2021), from which this article is adapted.*

THUNDERBIRD
GLOBAL EXECUTIVE EDUCATION

Powered by the Arizona State University Enterprise

GLOBAL LEADERSHIP FOR THE FOURTH INDUSTRIAL REVOLUTION

Globally Focused. Future-Ready.

Highlights from Thunderbird's Executive Education programs for individuals and organizations:

- Global Foundations for the Fourth Industrial Revolution
- Ethical Circular Economy
- Global Foresight & Leadership for Accelerated Growth
- Smart Cities & Urban Innovation Excellence

Thunderbird School of Global Management
#1 Master's in management
– Times Higher Education and Wall Street Journal 2019

WSJ
THE WORLD UNIVERSITY RANKINGS

#1 in the U.S. for innovation
ASU ahead of Stanford and MIT
– U.S. News & World Report, 5 years, 2016–2020

BEST COLLEGES
U.S.News
MOST INNOVATIVE
2020

Learn how Thunderbird prepares professionals and organizations for the Fourth Industrial Revolution: **Thunderbird.asu.edu/Exec-ed**

Features

"Founders were cited by 95% of VC firms as an important factor in decisions to pursue deals. The business model was cited by 74% of firms."

—"HOW VENTURE CAPITALISTS MAKE DECISIONS," PAGE 70

Artwork by **PABLO BONEU**

For an *Agile Transformation,* Choose the Right People

AUTHORS

Rob Cross
Professor, Babson College

Heidi K. Gardner
Distinguished fellow, Harvard Law School

Alia Crocker
Assistant professor, Babson College

Identify your "hidden stars" and other vital players.

PHOTOGRAPHER **TODD ANTONY**

CREATED BY A group of software developers in 2001, the agile methodology, which helps project teams achieve objectives quickly in rapidly changing or unpredictable environments, is now being used broadly throughout organizations. But wanting to be agile and being it are two different things. Our research, which looked at the agile initiatives of scores of companies over several years, reveals that many large-scale ones not only fail to meet their goals but also cause disruption within an organization. A poorly managed initiative can miss critical deadlines, slow product development, and lead to staff burnout, the loss of key talent, and infighting among teams. In one survey of 112 companies that we conducted, nearly 90% reported that they had struggled with rolling out organization-wide agile transformations, even after succeeding with initial small-scale projects.

Why are these efforts going so off track? To identify where unforeseen barriers undermined otherwise well-designed agile initiatives, we employed organizational network analysis—a methodology for mapping informal and formal relationships in order to understand and improve how people collaborate. In total, we studied more than 140 companies, surveyed some 30,000 employees, and interviewed more than 100 leaders. The main problem we uncovered: Traditional practices for framing, staffing, and executing agile projects are ineffective in company-wide initiatives.

IDEA IN BRIEF

THE PROBLEM
Agile methodology has been widely adopted in recent years, but large-scale initiatives often disrupt organizations and fail to meet their goals.

THE TYPICAL CAUSES
Companies often staff an agile team only with stars, overloading them; isolate the team from the main business to protect it, inadvertently impeding its access to crucial capabilities; and dedicate all members 100% to the team, which is unrealistic and unnecessary.

THE SOLUTION
Staff the team with "hidden stars"—people who have lower profiles and are less likely to be maxed out. Identify people who can help the team pull in or provide expertise as needed. Organizational network analysis, a methodology for mapping informal and formal relationships, can help with these tasks.

ABOUT THE ART

Photographer Todd Antony's series Climbing Cholitas *captures a group of indigenous women from Bolivia who are breaking stereotypes. In 2019 they summited the highest mountain outside Asia in their traditional billowing dresses, using their shawls rather than backpacks to carry their equipment.*

WHERE AGILE EFFORTS GO WRONG

In high-profile strategic initiatives, three typical mistakes undermine agile teams almost right from the start.

1 **The company staffs teams only with star performers.** This approach can undermine other important efforts in the company when it's taken with agile projects. The problem is that stars are deeply embedded in networks of relationships essential to getting *existing* work done and can't disconnect from their prior roles. Even when they're assigned exclusively to an agile project, star performers are constantly sought out by colleagues, often informally. "Susan, we're hitting roadblocks with your old account," a coworker might say. "Given that you know them so well, could you answer a couple of questions about how to position our solution?" The request for help then moves from late-night emails to a few phone calls, and before you know it, Susan has to prepare for and participate in a key client call. The number and range of demands placed on star performers outside the agile project are seldom recognized. Our research across companies has found that overloaded employees are sometimes working on 10 or more projects at once—even if that work doesn't show up in formal timekeeping databases. (See "The Overcommitted Organization," HBR, September–October 2017.) The risks of their burning out or failing because they're stretched too thin are very high.

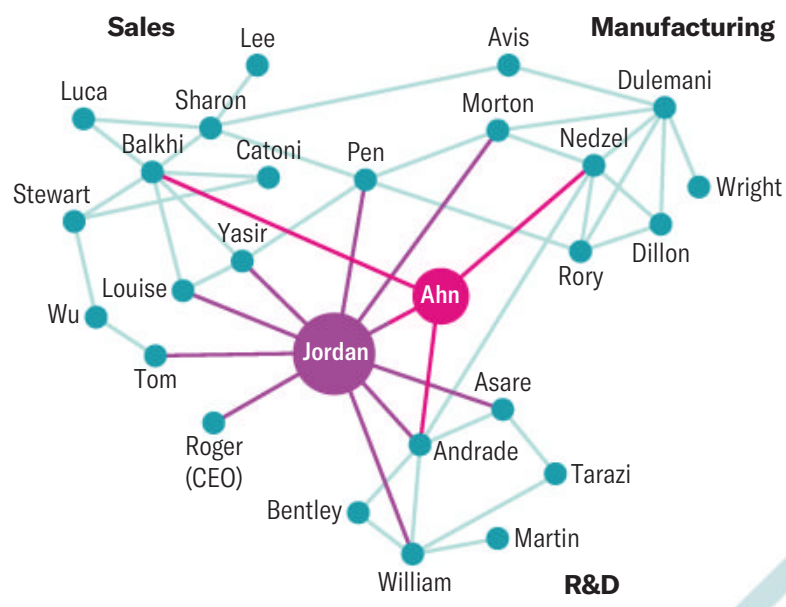
2 **Agile teams are kept apart from the main business to protect them from being contaminated by status quo thinking or killed off.** This approach has been popularized by Clayton Christensen's playbook for disruptive innovation. But isolation can create shortcomings for projects. Yes, it's true that an agile team needs some autonomy to spare it excessive scrutiny and interference, but complete isolation doesn't work. Agile teams seldom have all the capabilities needed to develop and execute a new initiative. A team typically has to pull in expertise from other parts of the company to get a big-picture view of problems, understand nuances in different geographies or clients, and anticipate rapidly shifting competitive landscapes. It's also critical for the team to engage with organizational stakeholders to get timely buy-in for resource requests and implementation plans.

Who Makes the Best Team Member?

This diagram is a simplified example of the connections crucial to getting work done in a business, as revealed by organizational network analysis. ONA employs data from a variety of sources, including internal surveys, emails, and records of how projects or sales efforts were staffed. In this case the data is from a pharmaceutical company. Let's explore what it says about two employees.

A recognized star. Jordan, deputy director of the company's R&D labs, is a key node in the network. This is because he has been tapped repeatedly to lead efforts to identify gaps in the consumer market, with exceptional results. His team's work has led to hundreds of millions of dollars in new revenue. Jordan has been promoted five times in his seven years at the company and is widely considered to be a candidate for a top leadership position in the years ahead. He is highly connected not only within his own R&D unit but also to the head of the company and multiple people in sales. For that reason, most companies would automatically choose him to lead an agile team responding to global regulatory changes that will create openings for new products in new markets. But that would be a mistake, not least because it risks stretching an already-overloaded high performer too thin.

A hidden star. Ahn is a much better choice for the agile team. She is a well-regarded researcher in her own right with a solid track record of helping shepherd new ideas to market, but she has half the network obligations that Jordan does and so has more time to devote to the project. Equally important, she has very strong connections to highly influential members (Balkhi, Nedzel, and Andrade) in each of the three functional areas as a result of working with them on previous successful projects. Those connections, combined with her tie to Jordan, mean she can help the project pull in crucial expertise from outside as needed.



3 All members of an agile team are dedicated 100% to it. The rationale is that total commitment is necessary for team members to cope with the demanding schedule of daily huddles and short sprints while maintaining a laserlike focus on key goals. But it's unrealistic to expect this from all members. Some initiatives would benefit from the involvement of experts who are so valuable that they don't need to—or can't—be pulled off their day jobs. Think of the specialists whose early opinions might shape a project: the regulatory lawyer who spots a less-risky product positioning and the cyber expert who alerts the team to data-privacy threats. Their input is extraordinarily important, but they don't have to be assigned full-time to an agile team.

GETTING AGILE PROJECTS RIGHT

In our research we've uncovered two core principles that are crucial to assigning the right people to an agile project—and determining what roles they should play.

Staff teams with "hidden stars." Resist the temptation to assign recognized star employees to key roles. Instead tap hidden stars, who possess the talent and contacts needed to develop and roll out an initiative but have much lower profiles in the organization and therefore are far less likely to be overloaded. An added benefit is that these people often are less steeped in a company's "This is how we do things here" mindset, so they can bring fresh perspective to a project that's looking to redefine processes and priorities. Choosing these less-obvious individuals for high-visibility agile teams also allows companies to build a deeper bench of talent.

You can use organizational network analysis (ONA) to identify your hidden stars. ONA analyzes data from internal surveys and electronic communications, like email and instant messaging, and other metrics—for instance, the number of times someone is sought out by colleagues, mentioned, or assigned to collaborative projects—to surface people and patterns that are typically overlooked by both leaders and workforce planning systems. In fact, when we looked at the 3% to 5% of employees who accounted for the most value-added collaborations (usually 20% to 35% of them) in organizations in our research, we found that at least half of those people hadn't been identified as high potentials in talent management systems. And when we've asked the

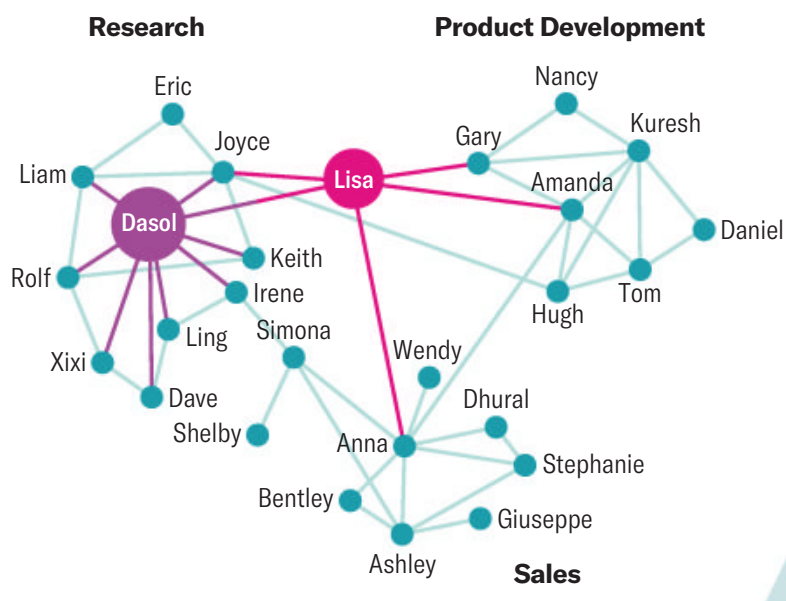
At least half the employees who accounted for the most value-added collaborations in organizations hadn't been identified as high potentials.

Who Should Lead a Project?

Dasol was an engineer with a degree from a premier university and over a decade of success in a well-regarded organization. As a rising star, she was tapped to head the commercialization of an engineering innovation. Top talent was assigned to the project, executive support was strong, and ample funding was provided. But nine months later, Dasol was looking for a new job because nothing was going as expected.

Dasol's impression was that the sales and product-development people weren't making enough time for the project. But the members of her team felt that even though its focus was explicitly commercialization, Dasol overemphasized research at the expense of the other functions. Organizational network analysis done after the fact uncovered that Dasol's network of ties was almost entirely in research. In this case the company would have been better served by selecting Lisa, who operated at the juncture between research and product development and could serve as a broker between the two. Dasol should have been put in a role that leveraged her ability to connect the project with people in her own department.

Unfortunately for Dasol, that insight came too late. She felt tarnished by the failure and decided to leave an organization that just a year earlier had branded her a superstar. The project delay also had massive implications for the organization, in terms of both revenue and strategy.



leaders charged with assembling agile teams to list their company's most in-demand employees, their knowledge has always been shallow: They can accurately name only three or four. When we use ONA, however, we typically get a much more comprehensive list.

Once the leading candidates for the agile team have been identified, firms should do a final cross-check to make sure those individuals won't have so many formal and informal obligations outside the project that they could derail its progress. ONA surveys can unearth the information you need to do this by asking two questions: (**1**) Which capabilities do you most need to seek out from others in order to do your work? and (**2**) To whom do you turn to get those capabilities?

If an otherwise suitable candidate has too many obligations that can't be off-loaded, you might consider designating her as a "go to" outside expert who can be tapped on an intermittent, informal basis. In fact, that practice proved so effective for one project at a technology company we studied that the firm's leaders started applying it elsewhere, giving individuals whom teams wanted to tap some additional resources and monitoring how their time was allocated so that they didn't get bogged down with lower-value work.

Identify highly connected potential resources. Most agile projects require occasional input from contacts outside the core team who have complementary expertise. But knowing the right people to consult—and when—can be challenging. In our work with high-tech, software, life sciences, and manufacturing companies, we've seen that ONA can help companies find three kinds of critical contacts.

Brokers sit at the juncture between silos in a company—such as business units, functions, and offices—and dramatically influence the diffusion of ideas and uptake of plans. They don't necessarily hold formal cross-silo positions but can help the agile team acquire ideas, expertise, equipment, or funding that its members don't have direct or easy access to. Because they "speak the language" of disparate groups, brokers instinctively look for ways to connect ideas across the company.

A good example is Jordan, the deputy director of a pharmaceutical company's R&D labs (featured in the exhibit "Who Makes the Best Team Member?"). Jordan has successfully led many product-development efforts because he has strong ties in both sales and manufacturing and is able to

seed his ideas with—and bring ideas back to his unit from—those groups. So even though his heavy demands make him a poor candidate for the full-time leader or even a member of the team, he could be useful to it as a broker. The team could bring him in occasionally to help brainstorm how to frame early-stage problems, discuss specific issues that arise during solution development, help obtain necessary resources, and suggest how to position the team's output to maximize its acceptance across the organization. Jordan would naturally share those discussions with people in multiple parts of the company, obtaining their input.

Central connectors are deeply embedded in their area of the organization—whether it's a function, a business unit, or even a floor of a building. Although they may be only individual contributors (such as R&D specialists, data analysts, and supply chain experts) and not in senior leadership positions, they have extensive working relationships with peers, subordinates, and managers throughout their part of the company. They are, in practice, central to their networks. They're important because they have deep local knowledge of what will work in different geographical or product markets and are influential within their groups. If an agile project team can win the support of a central connector, it can be reasonably sure that his or her entire network will follow suit. Conversely, a skeptical central connector can torpedo a project. So connectors can invisibly affect the speed and ultimate success of innovation projects. This means you should ask for their input both early in a project (to benefit from their experience and understanding of the context the agile solution will be used in) and late (to get their buy-in, which will then spread to others).

Domain experts have subject-matter knowledge that an agile team needs temporarily to tackle challenges. Their expertise may be scientific, technical, related to human factors or the design-thinking process, and so on. The agile team should seek out these highest-profile experts only for must-have input.

Here again, ONA can help. With its insights, a company can avoid putting an already-stretched domain expert on yet another project—or worse, potentially jeopardizing all the projects that person is working on. Unfortunately, we saw exactly that happen in one company. A scientist whose domain expertise was essential to the company's strategy of developing medical diagnostics and treatments was pulled into a new agile team that was trying to design a therapeutic for certain brain tumors. But because her knowledge was so valuable and rare, she was the go-to person for a range of research projects, and numerous other teams continued to call on her either formally or informally. Soon after she joined the team, she became stretched too thin, and the

What Is Organizational Network Analysis?

ONA is a methodology for mapping and analyzing how people collaborate. It can be used to identify formal and informal relationships, the frequency of interactions, the amount of time they consume, and their perceived value or cost.

ONA is commonly conducted with passive data sources such as email, instant messaging, and calendar programs, or active methods such as surveys. A variety of commercially available programs, such as Microsoft's Workplace Analytics and TrustSphere, can be used to capture information from an organization's electronic communications. Survey-based platforms like the Agility Accelerator are more effective at assessing the quality of collaborations (for example, whether they produce revenue or innovative insights) or the nature of the relationships (for example, the degree to which people trust or are energized by interactions with people in the network).

The data can be converted into a range of visual and quantitative analytics that enable leaders to understand patterns of collaboration and align them with strategic objectives. The most familiar outcome of ONA is a diagram of the network that shows who is turning to whom for help and who are the nodes that connect people within or between groups in an organization. ONA can also enable leaders to see who is overloaded with collaborations in the network, where talent is underutilized, or where silos exist (meaning there are few or no interactions between teams, functions, or geographies).

The Connected Commons, a consortium of 110 organizations sponsoring research on collaborative practices and headed by author Rob Cross, offers a free introductory five-session course on ONA.

sponsors of various projects began to fight over her time. The problem reached the board when the company's highest-priority drug-development project nearly missed a major filing deadline because the scientist had become a bottleneck.

One software company we studied created an "expert library" for a major off-site that several innovation teams attended (an approach that companies could apply more broadly). The experts were brought to the meeting but stayed in a separate room until they were "checked out" by individual teams that needed them. The teams then "returned" the experts so that they wouldn't dominate the discussion outside the issues they were consulted on and so that other teams could use them. It was a highly effective way for the teams to get insight at critical junctures without making the experts full team members.

AGILE METHODS CAN accelerate product development and process improvements. They can also help engage an organization's most valuable employees, deepening their connections and experiences in ways that pay off for the company in the long run. But agile teams are not stand-alone entities; they're embedded in broader collaborative networks. By taking that reality into account, leaders can design them so that they make the most of talent inside and outside teams, avoid overload and burnout, avert potential disruptions, and achieve their objectives better and faster.

HBR Reprint R2102C

ROB CROSS *is the Edward A. Madden Professor of Global Leadership at Babson College and a cofounder and research director of the Connected Commons.* **HEIDI K. GARDNER** *is a distinguished fellow at Harvard Law School and a faculty chair in the school's executive education programs. She is also a cofounder of Gardner & Co.* **ALIA CROCKER** *is an assistant professor of strategy at Babson College and focuses on issues related to strategic human capital in her research, teaching, and consulting work.*

How Venture Capitalists

An inside look at an opaque process

Make Decisions

ARTIST
PABLO BONEU

ENTREPRENEURSHIP

AUTHORS

Paul Gompers
Professor, Harvard Business School

Will Gornall
Assistant professor, Sauder School of Business

Steven N. Kaplan
Professor, Chicago Booth School of Business

Ilya A. Strebulaev
Professor, Stanford Business School

IDEA IN BRIEF

THE MYSTERY

Venture capitalists are a vital source of financing for high-growth start-ups. But little is known about what they actually do and how they create value. To find out, the authors conducted the largest survey of leading VC firms ever.

THE FINDINGS

VCs rely on their networks to identify investment opportunities, considering about a hundred for each deal they eventually close. Once they've put money into a company, they become active advisers. However, in general they believe the strength of the founding team is more important than the start-up's strategy or business model.

THE TAKEAWAYS

Entrepreneurs who aren't plugged into venture networks may face hurdles. But if they understand how VCs operate, entrepreneurs from all backgrounds are more likely to successfully pitch them and obtain funding.

BABEL · SP · NY

Over the past 30 years,

venture capital has been a vital source of financing for high-growth start-ups. Amazon, Apple, Facebook, Gilead Sciences, Google, Intel, Microsoft, Whole Foods, and countless other innovative companies owe their early success in part to the capital and coaching provided by VCs. Venture capital has become an essential driver of economic value. Consider that in 2015 public companies that had received VC backing accounted for 20% of the market capitalization and 44% of the research and development spending of U.S. public companies.

Despite all that, little is known about what VCs actually do and how they create value. To be sure, most of us have the broad sense that they fill a crucial market need by connecting entrepreneurs who have good ideas but no money with investors who have money but no ideas. But while the companies that VCs fund may make headlines and transform entire industries, venture capitalists themselves often prefer to remain in the background, shrouded in mystery.

More than 30% of deals come from leads from VCs' former colleagues or work acquaintances.

To pull back the curtain, we recently surveyed the vast majority of leading VC firms. Specifically, we asked about how they source deals, select and structure investments, manage portfolio companies post-investment, organize themselves, and manage their relationships with limited partners (who provide the capital VCs invest). We received responses from almost 900 venture capitalists and followed up with several dozen interviews—making our survey of VCs the most comprehensive to date. (See the sidebar "About the Research.")

Our findings are useful not just for entrepreneurs hoping to raise money. They also offer insights to educators training the next generation of founders and investors; leaders of existing companies seeking to emulate the VC process; policy makers trying to build start-up ecosystems; and university officials who hope to commercialize innovations developed in their schools.

Hunting for Deals

The first task a VC faces is connecting with start-ups that are looking for funding—a process known in the industry as "generating deal flow." Jim Breyer, the founder of Breyer Capital and the first VC investor in Facebook, believes high-quality deal flow is essential to strong returns. What's his primary source of leads? "I've found that the best deals often come from my network of trusted investors, entrepreneurs, and professors," he told us. "My peers and partners help me quickly sift through opportunities and prioritize those I should take seriously. Help from experts goes a long way in generating quantity and then narrowing down for quality."

Breyer's approach is a common one. According to our survey, more than 30% of deals come from leads from VCs' former colleagues or work acquaintances. Other contacts also play a role: 20% of deals come from referrals by other investors, and 8% from referrals by existing portfolio companies. Only 10% result from cold email pitches by company management. But almost 30% are generated by VCs initiating contact with entrepreneurs. As Rick Heitzmann of FirstMark told us, "We believe that the best opportunities don't always walk into our office. We identify and research megatrends and proactively reach out to those entrepreneurs who share a vision of where the world is going."

What these results reveal is just how difficult it can be for entrepreneurs who are not connected to the right social and professional circles to get funding. Few deals are produced by founders who beat a path to a VC's door without any connection. Some of the VC executives we interviewed acknowledged the downsides of this reality: that the need to be plugged into certain networks can disadvantage entrepreneurs who aren't white men. Nonetheless, many VCs felt the situation was improving. For instance, Theresia Gouw, an early investor in Trulia and a founding partner at Acrew Capital, told us, "While historically there have been significant roadblocks for women and underrepresented minorities to break into these networks, the industry has begun to recognize the missed opportunities and talent these groups represent. Firms have prioritized diversifying their partnerships, and as a result these networks are becoming increasingly easier to penetrate."

Narrowing the Funnel

Even for entrepreneurs who do gain access to a VC, the odds of securing funding are exceedingly low. Our survey found that for each deal a VC firm eventually closes, the firm considers, on average, 101 opportunities. Twenty-eight of those opportunities will lead to a meeting with management; 10 will be reviewed at a partner meeting; 4.8 will proceed to due diligence; 1.7 will move on to the negotiation of a term sheet with the start-up; and only one will actually be funded. A typical deal takes 83 days to close, and firms reported spending an average of 118 hours on due diligence during that period, making calls to an average of 10 references.

Though VCs reject far more deals than they accept, they can be very aggressive when they spot a company they like. Vinod Khosla, a cofounder of Sun Microsystems and the founder of Khosla Ventures, told us that the power dynamic can quickly flip when VCs become excited about a start-up, particularly if it has offers from other firms. "The best start-ups with inspiring entrepreneurs have intense competition to fund them," he explained. "For VCs, having a clear message about what you will and will not do, how you provide real venture assistance, and how you approach bold visions is key to winning these types of opportunities. And they matter tremendously for fund returns."

What factors do VCs consider as they go through the winnowing process? One framework suggests that VCs favor either the "jockey" or the "horse." (The entrepreneurial team is the jockey, and the start-up's strategy and business model are the horse.) Our survey found that VCs believe both the jockey and the horse are necessary—but ultimately deem the founding management team to be more critical. As the legendary VC investor Peter Thiel told us, "We live and die by our founders."

Indeed, in our survey founders were cited the most frequently—by 95% of VC firms—as an important factor in decisions to pursue deals. The business model was cited as an important factor by 74% of firms, the market by 68%, and the industry by 31%.

Interestingly, the company's valuation was only the fifth most-cited factor in decisions about which deals to pursue. Indeed, while CFOs of large companies generally use discounted cash flow (DCF) analyses to evaluate investment opportunities, few VCs use DCF or other standard financial-analysis techniques to assess deals. Instead, by far the most commonly used metric is cash-on-cash return or, equivalently, multiple of invested capital—simply the cash returned from the investment as a multiple of the cash invested. The next most commonly used metric is the annualized internal rate of return (IRR) a deal generates. Almost none of the VCs adjusted their target returns for systematic (or market) risk—a mainstay of MBA textbooks and a well-established practice of corporate decision-makers. Strikingly, 9% of the respondents in our survey did not use any quantitative deal-evaluation metric. Consistent with this, 20% of all VCs and 31% of early-stage VCs reported that they do not forecast company financials at all when they make an investment.

What explains this disregard for traditional financial evaluation? VCs understand that their most successful M&A and IPO exits are the real driver of their returns. Although most investments yield very little, a successful exit can generate a 100-fold return. Because exits vary so much, VCs focus on finding companies that have the potential for big exits rather than on estimating near-term cash flows. As J.P. Gan of INCE Capital explained to us, "Successful VC deals take a long time to develop, mature, and exit. We very much focus on potential return multiple rather than on NPV or IRR at the time of investment. IRR is only calculated after the fact, when there is an exit for our limited partners."

After the Handshake

To aspiring entrepreneurs, the typical VC term sheet often seems to be written in a foreign language. Of course, it's critical for company founders to understand these contracts. They're designed to ensure that the entrepreneur will do very well financially if he or she performs but that investors can take control of the business if the entrepreneur doesn't deliver. Prior studies of VC investment terms show that VCs accomplish that through the careful allocation of cash flow rights (the financial upside that gives founders incentives to perform), control rights (the board and voting rights that allow VCs to intervene if needed), liquidation rights (the distribution of the payoff if the company flounders and has to be sold), and employment terms, particularly vesting (which gives entrepreneurs incentives both to perform and to stay at the company). In general, deals are structured so that entrepreneurs who hit specific milestones retain control and reap monetary rewards. If they miss those milestones, however, the VCs can bring in new management and change direction.

Less is known, however, about which investment terms are most critical to VCs and how they make trade-offs among them. So in our survey we asked which ones they used and which ones they were willing to negotiate.

The VCs indicated that they were relatively inflexible on pro rata investment rights, liquidation preferences, and antidilution rights (which protect their potential economic upside) as well as on the vesting of the founders' equity, the company's valuation, and board control (which is often seen as the most important control mechanism). As one VC put it, pro rata rights, which allow VCs to acquire an additional stake in a company, were paramount because "the biggest source of our returns is our ability to double down on our winners." VCs were more flexible on the option pool, participation rights, investment amount, redemption rights, and, in particular, dividends. Many of those terms have a smaller effect on the potential returns of the VCs and hence are more likely to be negotiable.

Nonetheless, many VCs try not to focus too narrowly on financial terms during their courtship with start-ups—and

Few VCs use standard financial-analysis techniques to assess deals. The most commonly used metric is simply the cash returned from the deal as a multiple of the cash invested.

We asked VCs what contributed most to the success or failure of their portfolio companies. The management team was identified as the most important factor by far.

give equal emphasis to how the company fits into their portfolios and why their experience and expertise can help the founding management team. As Khosla explained to us, "To attract the best entrepreneurs, it's important to have a clear point of view beyond just making money. What are you as a venture firm trying to do, and does it align with what the entrepreneurs' vision is?"

Finding Alpha

Once VCs have put money into a company, they roll up their sleeves and become active advisers. VCs told us that they "interact substantially" with 60% of their portfolio companies at least once a week and with 28% multiple times a week. They provide a large number of post-investment services: strategic guidance (given to 87% of their portfolio companies), connections to other investors (72%), connections to customers (69%), operational guidance (65%), help hiring board members (58%), and help hiring employees (46%). Intensive advisory activities are the main mechanism VCs use to add value to their portfolio companies. (Surveys reveal that this is also true for private equity investors.) Jon Callaghan of True Ventures says his firm believes that advisory services play such a crucial role in attracting the best entrepreneurs that it has spent 15 years and $10 million developing them. "We do this because we've learned time and time again that the founders are key to building and leading the teams that create the biggest outcomes in venture capital," he notes.

The top VC funds make a spectacular amount of money. Yet a definitive explanation for how VCs deliver "alpha," or positive risk-adjusted returns, has yet to be articulated. We decided to ask the VCs directly—having them assess the relative importance of deal sourcing, deal selection, and post-investment actions to the creation of value in their portfolios. A plurality reported that while all three were key, deal selection was the most critical.

We also asked VCs what contributed most to the success or failure of their portfolio companies. Again, the management team was identified as the most important factor by far. As Brian Jacobs, a cofounder of Emergence Capital, told us: "I have never seen a venture success for which one person deserves all the credit. The winners always seem to be the

founders who can build a kick-ass team." Other factors the VCs cited included timing, luck, technology, business model, and industry, which they rated roughly equal in importance. Perhaps surprisingly, they didn't cite their own contributions as a major source of success. These answers suggest that it is entrepreneurs rather than VCs who create the most value for start-ups. One VC executive put it this way: "Our firm puts a huge amount of work into helping our companies—everything from assisting with hiring to acting as the founder's psychologist. But in the end the real success or failure of a venture comes from the founders."

The VC Way

Tourists who drive along Sand Hill Road in Palo Alto—the street where many of the leading multibillion-dollar venture capital funds are located—are often shocked to find only small, conventionally designed offices set discreetly behind leafy trees. The modest offices only add to the air of mystery around how exactly these firms are structured and operate.

In our survey the average VC firm had just 14 employees and five senior investment professionals. This pocket-sized, flat structure allows for quick decision-making and action—but perhaps fewer checks and balances.

Although they worked more than traditional banking hours, most VCs in our survey reported that their workweek was by no means excessive. On average, they put 55 hours a week in on the job, spending 22 hours a week networking and sourcing deals and 18 hours working with portfolio companies. In a recent update to our survey, done during a peak of the Covid-19 pandemic, we found that while VCs' pace of investment had slowed slightly, venture capitalists were allocating their time in roughly the same way—pursuing new deals, performing due diligence, closing new investments, and helping portfolio companies.

Finally, we asked about their interactions with their limited partners. The majority said that they believed their investors cared more about absolute performance than about relative performance. Nevertheless, the vast majority (93%) of VCs said that they expected to beat the market on a relative basis. That optimism is understandable. As of June 2020 the VC funds raised from 2007 to 2016 in the Burgiss Manager Universe had outperformed the Russell 2000 (a small-cap index) by 7% a year, on average, and the S&P 500 by nearly 5% a year. Almost 75% of those funds had beaten the Russell 2000, and roughly 60% had beaten the S&P 500.

A Venture Capital Glossary

Antidilution rights allow the number of shares that current investors hold to be adjusted if future financing rounds are done at a lower price than the current round.

Liquidation rights ensure that if a company is sold, the venture capitalists get paid before the founders do. They typically guarantee the amount invested or some multiple of it (for example, double).

Option pool refers to an amount of equity set aside for grants to compensate current and future employees of the start-up. Usually it's a percentage of the company's total value.

Participation rights allow venture capitalists to get back the face value of their investment (or a multiple of it) and then to share in the value created above that level at the time of a company exit.

Pro rata investment rights give venture capitalists the right to invest in a company's subsequent investment rounds and preserve their initial percentage of ownership.

Redemption rights give venture capitalists the ability to return stock to the company—that is, force it to pay back the amount of the investment.

HOW CAN THESE findings be used in practice? For academics, our results offer a good base from which to further explore the nature and relative importance of deal sourcing, deal selection, and post-investment support services.

In addition, the preeminence of the founding team in the minds of VCs points to a potentially fruitful area of research for academics: Are there experiences or attitudes that define the people likely to be successful founders?

Our survey results also offer critical takeaways to entrepreneurs. Because VCs rely on their networks to source opportunities, entrepreneurs should research who belongs to a VC's network and try to get an introduction from someone in it. Because the management team weighs so heavily in investment decisions, entrepreneurs

Because VCs look at more than 100 opportunities for every one they invest in, entrepreneurs should be prepared to pitch to many VCs.

should think carefully about how to present themselves in the best possible light when they do meet a VC. Because VCs look at more than 100 opportunities for every one they invest in, entrepreneurs should be prepared to pitch to many VCs.

As noted earlier, entrepreneurs who are not plugged into venture networks may face hurdles. Those entrepreneurs may include not only founders of color and female company builders but also those who live in regions outside the traditional hubs of venture capital, such as Silicon Valley, London, Boston, and Beijing. Sarah Kunst, the managing director of Cleo Capital, noted that years of success funding entrepreneurs in VC hubs have made the barriers to entry even higher for nontraditional founders. "Our networks are often a reflection of where we live and where we've worked. When certain groups are consistently disenfranchised, there is a cumulative network debt that accrues that can't be quickly overcome," she said, adding that even minorities who live in VC hubs are at a disadvantage. "If you've been underpromoted at every job you've ever had, your title might be several levels below your work experience, and your peers might not be in C-suites where they could hire you or appoint you to boards. If you've been underpaid, you may not have the free cash flow to join exclusive clubs or angel-invest, and those missed network nodes add up to incalculable losses in career and net worth."

It is incumbent upon educators, venture capitalists, and society at large to work to mitigate systemic financial discrimination and ensure that a broader pool of entrepreneurs receives funding and support. There are no easy answers, and research has pointed to a variety of frictions that exist in the entrepreneurial ecosystem. For our part, we hope our research can help entrepreneurs from all backgrounds successfully network with and pitch VCs by understanding the criteria they use to evaluate investments, how they spend their time, what they do on a day-to-day basis, and which factors are most critical in ensuring great returns.

Finally, many corporations have started investment arms over the past decade to try to harness the potential of entrepreneurial activity, and they can learn from the practices of the VC industry. The critical role that the management team and deal sourcing play in determining the success of investments should inform whom they choose to fund—and where and when. The many local policy makers who seek to build sustainable venture capital ecosystems to foster economic growth can likewise benefit from understanding VCs' tactics. The ability of government leaders and officials to promote high-quality, high-potential entrepreneurs should not be overlooked. Finally, universities are often the source of innovations that end up in the portfolios of VCs. University officials can learn how to better leverage the innovative activity happening within their halls. Building relationships with leading VCs and promoting an entrepreneurial community can help spur start-up activity.

HBR Reprint R2102D

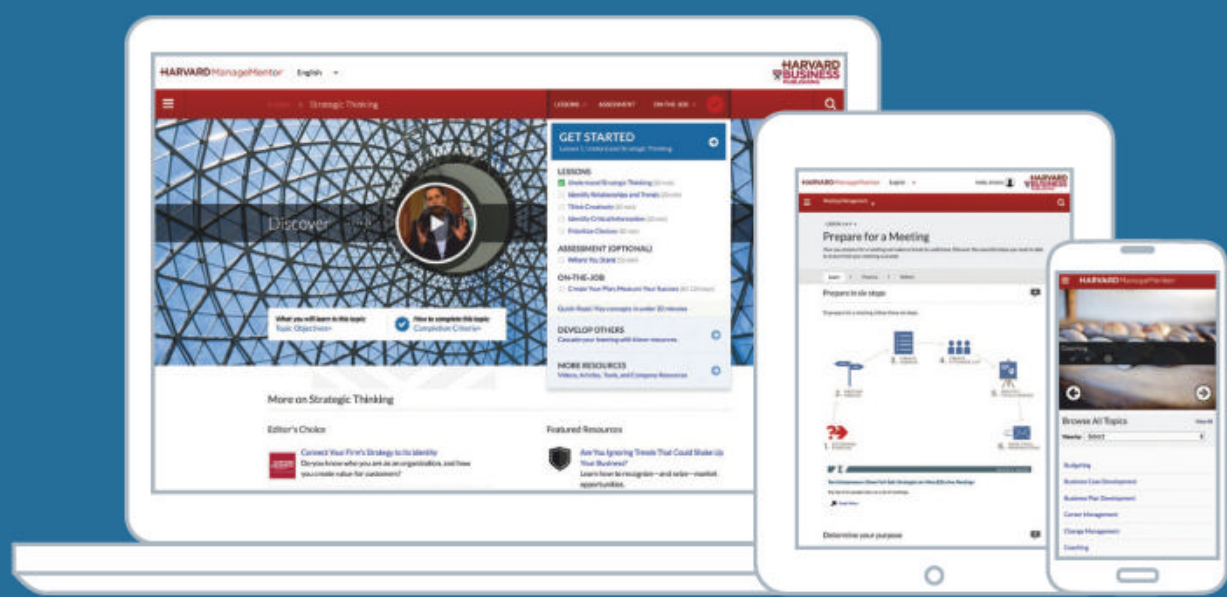
About the Research

To solicit respondents to our survey, we used alumni databases from the University of Chicago Booth School of Business, Harvard Business School, and the Stanford Graduate School of Business. According to a study by Pitchbook, more than 40% of the VCs with MBAs graduated from one of those schools. We also tapped the Kauffman Fellows program's data on its VC alumni. The National Venture Capital Association generously gave us a list of its individual members. Finally, we used the contact information of VCs in the VentureSource database.

We administered the survey between November 2015 and March 2016. The survey was fully confidential, and all the reported results are based on an aggregation of many responses to exclude the possibility of inferring any specific respondent's answers. However, the survey was not anonymous, and we matched the respondents with VentureSource and other data sources.

PAUL GOMPERS *is a professor at Harvard Business School and a research associate at the National Bureau of Economic Research.* **WILL GORNALL** *is an assistant professor at the University of British Columbia Sauder School of Business.* **STEVEN N. KAPLAN** *is a professor at the University of Chicago Booth School of Business and a research associate at the National Bureau of Economic Research.* **ILYA A. STREBULAEV** *is a professor at the Stanford Graduate School of Business and a research associate at the National Bureau of Economic Research.*

Harvard Business Review



Everything You Need to **Succeed as a Manager**

Harvard ManageMentor gives you the skills and solutions you need to effectively meet management challenges every day. Our newest version of this premier online learning tool is packed with relevant, continuously updated content that will let you gain invaluable skills for yourself, your team, and your organization—at the pace you want, when you want it.

HARVARD MANAGEMENTOR ONLINE TOOL | 41 TOPICS | #5678

hbr.org/harvardmanagementor

1-800-988-0886 OR +1-617-783-7500

LEADERSHIP

AUTHORS

Adam Bryant
Managing director, Merryck & Co.

Kevin Sharer
Former CEO and chairman, Amgen

Are You *Really* Listening?

Senior leaders can become insulated from early signs of danger and opportunity. Here's how to overcome that.

PHOTOGRAPHER **ANDREW ZUCKERMAN**

In 1992 one of us (Kevin) joined Amgen, the world's largest biotechnology company, as its president and chief operating officer. Up until then, all Kevin's key professional influences—in the U.S. Navy, where he began his career, and then at General Electric and MCI—had exemplified certain core principles of leadership.

His colleagues were confident, employed a command-and-control style of leadership, and made their expectations clear. Kevin adopted that style, which came naturally to him and allowed him to rise rapidly on the career ladder. He recalls, "My approach was: 'I'm the smartest guy in the room. Just let me prove that here, in the first five minutes.' I would even interrupt people and tell them what they were going to tell me, to save us time so that we could get to the really important stuff, which was me telling them what to do. And I got away with it. It worked."

Until it didn't.

In 2000 Kevin became Amgen's CEO. In that role he assembled a new leadership team and set the company on a trajectory of rising revenue and profits. Magazine cover stories and other recognition followed, pushing him into what, in hindsight, he calls the "ego danger zone." He was less engaged and became intellectually lazy. The talk in the company, a trusted lieutenant later informed him, was that people should avoid meeting with the boss after 3 PM, because his attention waned as the day wore on.

Then a crisis hit. Seven years into his tenure as CEO, a red-blood-cell stimulant called Epogen, which accounted for a third of Amgen's profits and was believed to be nearly free of side effects, was flagged in studies suggesting that at higher doses it caused a slightly greater risk of heart problems for patients. The FDA ordered changes in how it was prescribed, which sharply lowered sales. As profits fell, Kevin had to order the first mass layoff in the company's history, cutting 14% of its staff.

At first he angrily blamed others for the debacle. "I was completely in denial," he recalls. "I had become impatient and arrogant, and I assumed people were going to fix the problem." But one evening Kevin found himself sitting alone in a restaurant in Santa Monica, waiting for his daughter and her husband to join him for dinner. That rare moment of quiet provided time for reflection and led to an epiphany. He had mishandled the Epogen crisis, he realized, in large part because he was a horrible listener.

Kevin resolved to do better from that day on. Instead of thinking of eight things at once when he was meeting with somebody, he would be present. Instead of approaching every conversation as a transactional exchange and cutting people off and telling them what to do, he would ask for

Although listening skills are key to heading off potential crises, they are equally important for ensuring that good ideas can surface from anywhere.

context and suggestions. He also committed to establishing a regular cadence of surveys, conversations, and feedback mechanisms designed to open lines of communication inside and outside the company so that he could better pick up on early signs of danger and glimmers of opportunity.

For leaders, Kevin realized, the art of listening has two key components. One involves listening without distraction or judgment, purely for comprehension. The other involves creating systems and processes that not only make listening active but also elevate it on all fronts to a state of hypervigilance. "It's not just about listening to the person across the table from you," he says. "It's being alert to the whole ecosystem in which you operate. Signals come to you with varying intensity from varying sources—in a comment from an FDA regulator, during conversations with the board, in stories in the press, in anecdotes that you pick up inside the company. The question is: Can you listen to it all and separate the signal from the noise?"

Trapped in a Bubble

You won't find a course on listening at many business schools, but it's an essential skill for leaders if they hope to counteract the multiple forces that can lull them into believing they know everything they need to know about what's happening in their organizations. At the core of the challenge is a paradox in the life of senior leaders, particularly CEOs: They generally have access to more lines of communication than anybody else has, but the information that flows to them is suspect and compromised. Warning signals are tamped down. Key facts are omitted. Data sets are given a positive spin. As leaders come to see this, they can find themselves staring at the ceiling in the middle of the night, wondering, "How can I find out what I need to know?"

We've devoted a lot of time to thinking about that question. Adam has conducted in-depth interviews with more than 600 CEOs and other leaders, during which he pressed them to share the most important lessons they've learned about how to do their job well. Kevin has a deep well of personal experience to draw on, not only as a senior executive and a CEO but also as a professor of strategy and management at Harvard Business School and a director on several corporate boards.

We've learned that listening involves far more effort than most leaders realize. Dozens of problems emerge inside organizations, some of them with the potential to cripple an enterprise if left unchecked. And although listening skills are key to heading off potential crises, they are equally important for ensuring that good ideas can surface from anywhere. "You don't know where the best ideas are going to come from in the organization," says Tim Brown, the executive chair of the design firm IDEO and formerly its CEO for 19 years. "So you'd better do a good job of promoting them when they come and spotting them when they emerge, and not let people's positions dictate how influential their ideas are."

And yet executives often trap themselves in information bubbles, a result of their overconfidence and outdated ideas about leadership. They believe, as Kevin did early in

IDEA IN BRIEF

THE CHALLENGE
Senior leaders confront a paradox: They have access to more lines of communication than anybody else has, but the information they get is suspect and compromised. Warning signals are tamped down, key facts are omitted, and data sets are given a positive spin.

THE INSIGHT
To break out of their information bubbles, leaders need to create better "listening ecosystems." They must listen without distraction or judgment—purely for comprehension—and create systems and processes that elevate listening to a state of hypervigilance.

THE BENEFITS
When leaders listen in focused, attentive, and systematic ways, they can pick up on early signs of danger, head off potential crises, and recognize glimmers of opportunity. Becoming better listeners, in short, allows them to do their jobs better.

his career, that they're a step ahead of everyone else. Some CEOs tell themselves that the members of their leadership team are paid handsomely to do their jobs, which includes handling problems so that their boss doesn't have to. In *Lights Out: Pride, Delusion, and the Fall of General Electric,* Thomas Gryta and Ted Mann describe how GE's former CEO, Jeff Immelt, would respond to subordinates who raised doubts about his ambitious growth targets. "You don't want it bad enough," he'd say. That led to the phenomenon of "success theater," in which employees would frame results in ways that avoided tough conversations about problems and just suggested that everything was progressing well.

Nell Minow, a former principal of the activist-shareholder fund Lens, observed this phenomenon regularly during the 1990s, when her firm took positions in roughly two dozen companies, including Sears, Reader's Digest, and Waste Management. "The single defining characteristic of every underperforming company we went after," she recalls, "was that the CEO had walled himself off from any kind of skepticism. All those companies had CEOs who took an enormous number of steps to make sure that no one would ever question them or second-guess them."

In other words, they existed in a bubble that prevented them from listening well.

Six Useful Steps

So how can leaders break out of that bubble? Here is some pragmatic CEO wisdom for learning to listen more effectively:

Protect against blind spots. Kelly Grier, the U.S. chair and managing partner and Americas managing partner at Ernst & Young, has long made a habit of telling the people on her team that they need to keep her informed. As she puts it, "If you haven't created a culture or an environment where people feel free to challenge you as the leader, you are in a very perilous place, because you will have blind spots." Grier delivers this message consistently, not only to her direct reports but also to her board of directors. "You have a responsibility to help me actively work the blind spot," she tells them. "You've got to bring the truth forward. We have to have that level of trust."

De-emphasize hierarchy. When Mark Templeton was the president and CEO of Citrix, from 2001 to 2015, he adopted a mantra to ensure that his employees wouldn't be intimidated by titles or rank. "A lot of organizations go off track by confusing where people are in the hierarchy with the respect they deserve," he says. "Hierarchy is a necessary evil of managing complexity, but it in no way should have anything to do with the respect that you give an individual. I said that over and over at Citrix and found that it allowed everybody in the company, no matter what their title, to feel comfortable sending me an email or coming up to me at any time to point something out."

Give permission to share bad news. When Penny Pritzker, who served as the U.S. secretary of commerce from 2013 to 2017, first met with job candidates, she would have a blunt conversation about the dangers of not sharing problems with her. "I would tell them," she says, "that if you want to get fired, here's what you need to do: First, lie, cheat, or steal. But the other thing that will get you fired is if you have a problem and you keep it to yourself. Oftentimes people just don't give you the full picture, because they don't want to tell you the things you don't want to hear. That's very worrisome to me. You need to give them permission to give you bad news."

Create an early-warning system. As the CEO of Aira Technologies, Anand Chandrasekher asks his team to follow a simple rule: If you have bad news, text me; if you have good news, share it with me in person. "It's a human tendency to want to share only good news," he says. "If you can get a team and an organization not to be afraid of bad news, either receiving it or delivering it, then you can build an early warning system. If you get bad news early, you can react faster, and that reaction time is precious."

To encourage problem-solving, acknowledge progress. When Paul Kenward, a managing director of British Sugar, meets with groups of employees, he will sometimes ask them about the things they've accomplished during the previous five years that they're really proud of. "They will tell me," he says, "and then I say, 'Now imagine we're together five years from now. What are we proud of now? What would you really love to have achieved or the business to have changed?'" Those questions, Kenward says, make it easier for people to talk positively about a problem they're seeing

Executives often trap themselves in information bubbles, a result of their overconfidence and outdated ideas about leadership.

Listening is a multidimensional practice. Leaders must listen attentively and systematically to gradually develop a nuanced sense of the nature of their organization.

today. "It's a simple approach, but it's clever: Ask people first about what they're proud to have achieved. If you don't reflect on the fact that we are able to change things, people give up before they've started. And actually, most organizations have changed quite a lot of things. You just have to help people realize that."

Listen without judgment or an agenda. Joel Peterson, the former chairman of JetBlue Airways and the founder of Peterson Partners, an investment firm, says that senior executives may find it challenging to remain fully present in meetings when they have 10 things on their minds at any given moment. But it's a necessary discipline if they are to draw people out, he argues, and it requires that you listen to achieve understanding and withhold judgment. "You can't have an agenda," Peterson says. "When you have your own agenda while you're listening to someone, what you're doing is formulating your response rather than processing what the other person is saying. You have to really be at one with yourself. If you have these driving needs to show off or to be heard or whatever, then that kind of overwhelms the process." Leaders can help themselves avoid that danger by reminding themselves of a simple acronym whenever they're listening: WAIT, for "Why Am I Talking?"

Actively seek input. It's not enough just to emphasize that people should speak up. You also have to invest time and energy in walking the halls, traveling to manufacturing plants and stores, holding regular town halls, and meeting with smaller groups from various departments and ranks. (Until the pandemic ends, much outreach will have to be done virtually, of course.) That can be time-consuming, but it's a core part of your job as a leader. If you get stuck in an ivory-tower mindset, the gap between your perceptions and the reality of what's happening inside your company will grow—which can slow momentum and send top talent heading for the exits.

Meetings and Q&A sessions with broad groups of employees are useful for reminding people of your strategy and for clearing up any misconceptions. But leaders can also use those sessions to pick up on signals about emerging problems and opportunities and then deploy effective lines of questioning to encourage employees to share whatever's on their minds.

A Listening Ecosystem

One key to becoming a better listener as a leader is to create a "listening ecosystem" for yourself. That's what Kevin did during his later years at Amgen. He would get a quarterly report from his team on relevant news from competitors, so that he could learn from the challenges they were facing; then he would ask questions about how Amgen was positioned to address those challenges. He broadened his network of sources inside the company and included the head of Amgen's relations with its chief regulator, the FDA. For meetings with that person he developed a structured set of questions: "Are we meeting our commitments?" "Is there anybody at the FDA who has a bad opinion of us?" "What's the next key FDA event?" "Is there anything else you want to tell me?" Kevin had regular meetings with the vice president in charge of compliance, to ensure that Amgen's sales force talked with doctors only about the clinical effects of Amgen's drugs, not about what they could mean for the doctors' bottom lines. He developed relationships with factory managers and visited them often. He went on rides with his sales reps, asking them between sales calls about any concerns they might have.

In all his listening work, Kevin made sure to focus on signals of opportunity as well as danger. For example, after Amgen had emerged from the Epogen crisis and was delivering solid growth again, its stock was not moving, in part because the biopharmaceutical industry was out of favor. Amgen's leaders and its big shareholders believed that the stock was seriously undervalued.

During a long conversation, one of the largest investors asked Kevin why so many companies in the industry carried so little debt. It would have been easy for Kevin to dismiss that question, because the conventional wisdom was that companies needed a fortress balance sheet to weather storms created by patent expirations or crises like the one Amgen had just lived through. But instead Kevin listened—and what he heard prompted him to make some back-of-the-envelope calculations later about what it would cost to borrow money and use it to buy back a significant share of the company's stock. Interest rates were low, and he worked out that the company would still have plenty of rainy-day funds. "The signal was unexpected," he says,

"and it took my being open to it and willing to take a bit of a risk to act."

But act he did. He had Amgen buy back much of the company at $60 a share, and since then the stock has risen more than fourfold. Stock buybacks are no panacea, of course; they often do little more than drain cash reserves to achieve short-lived stock bumps. But in this case the buyback proved to be the right move at the right time. Many other drug companies ended up following Amgen's lead.

Kevin took other steps to build his listening ecosystem. He asked Brian McNamee, then his chief human resources officer, to regularly survey the leadership team about what they thought of his performance. The questions he wanted raised included "What am I doing that you want me to keep doing?" "What are the things that I should either stop doing or significantly modify?" "What are the things that I should start doing or do a lot more of?" and "Is there anything else you want to tell me?" To encourage candor, McNamee would take all the answers and synthesize them into a report for Kevin, who in turn would pass it along to the board for discussion on its own. (Kevin's CEO friends thought he was crazy to do this.)

Additionally, the annual survey of all Amgen employees included the question "What do you think of the job that Kevin is doing?" That brought in hundreds of responses, which Kevin would read at night, often with an adult beverage nearby to help him accept the sometimes blunt feedback. Many employees found him to be a remote leader, he learned, so he began spending more time outside his office, chatting with colleagues in the hallways and the cafeteria and holding more town hall meetings. "Creating listening systems is not just about passively accepting what comes your way," he says. "You have to create structures so that people know you want to hear what they have to say."

That means proving to people that you're listening to them—and Kevin resolved to do that. After an important meeting or discussion with Amgen's board, for example, he would often write up a summary of what had been discussed, acknowledge the board's input, and lay out the steps he planned to take next. He would send this document to all the directors as proof that he had listened, that he respected and understood what they had said, and that he had a clear plan of action in response. Kevin found the practice helpful in his relationship with the board. "They can then never claim you did not hear them," he says. "You also get to define the reality of what happened and are clear on next steps, giving them a chance to disagree or clarify their input."

Kevin also changed the way he listened, trying to be much more present and attuned to body language than he had been before the Epogen crisis. "I slowed down," he says. "I made time to listen." As part of that effort, he designed his office to look like a living room, and in one-on-one meetings he would always sit in a chair away from his desk. "I wanted to create an environment where my direct reports trusted that they could tell me bad news without getting punished," he says. "You have to treat your direct reports as partners, not as subordinates. Partners can talk about tough issues together and come up with a collaborative best response. I had periodic conversations with them when I just asked, 'What's going on?' I wouldn't be rushed. I'd take the approach of a counselor and coach, not a judge."

LISTENING IS A multidimensional practice. It requires commitment and constant attention, and leaders cannot survive or thrive in their work until they learn that fundamental lesson. But even when they do listen, they need to remember that they can't take the signals they pick up on—good or bad—at face value. Instead they must listen so attentively and systematically that they gradually develop a richly nuanced sense of the nature of their organization, its complex dynamics, and what it feels like to work there.

As Kevin puts it, "If you just walk around and see a bunch of smiling faces and say, 'Gee, everybody looks happy to me,' you're not listening."

HBR Reprint R2102E

ADAM BRYANT *is a managing director of Merryck & Co., an executive mentoring and leadership-development firm. He has interviewed more than 600 CEOs and other leaders, including for "Corner Office," a weekly feature he created at the* New York Times. **KEVIN SHARER** *is a former CEO and chairman of Amgen, the world's largest biotechnology company. He was a member of the Harvard Business School faculty from 2012 to 2020. They are the coauthors of* The CEO Test: Master the Challenges That Make or Break All Leaders *(Harvard Business Review Press, 2021), from which this article is adapted.*

Lufthansa

HUMAN RESOURCES

AUTHORS

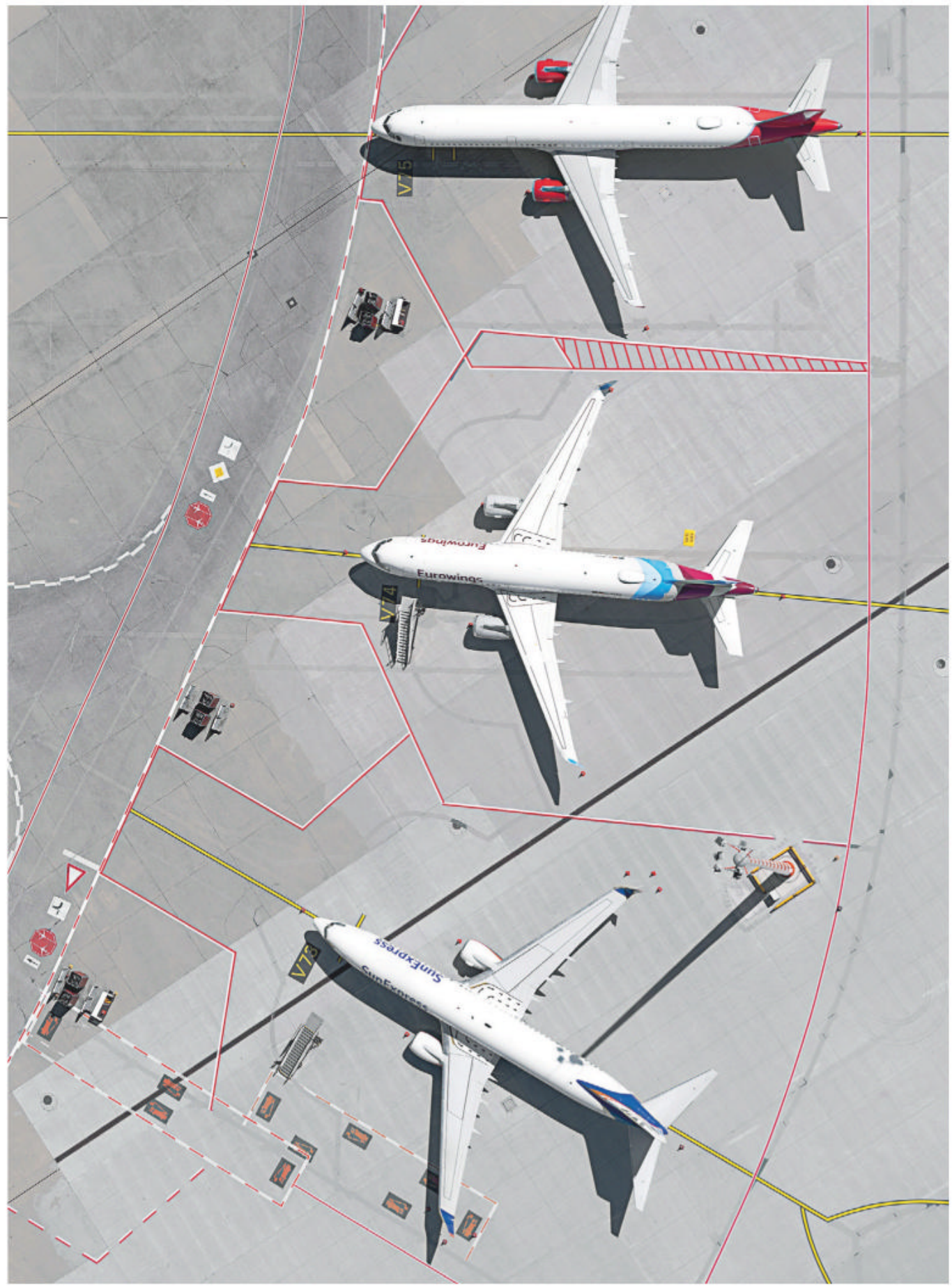
Alison M. Dachner
Associate professor, John Carroll University

Erin E. Makarius
Associate professor, University of Akron

Turn *Departing* Employees into *Loyal* Alumni

PHOTOGRAPHER **TOM HEGEN**

A holistic approach to offboarding



IDEA IN BRIEF

THE PROBLEM
Organizations devote a great deal of attention to onboarding—but very little to offboarding. That's shortsighted given the growing churn in the workforce today.

THE OPPORTUNITY
A well-managed offboarding process can turn employees into loyal alumni who become customers, suppliers, boomerang employees, mentors to current workers, and ambassadors for the firm.

THE RECOMMENDATIONS
Companies should prepare for employees' departures well in advance, recognize people's contributions when they leave, conduct thoughtful exit interviews, provide support for the transition (tailoring it to individuals' needs), and create formal programs to keep alumni connected to the organization.

Organizations spend a great deal of time and resources bringing new hires aboard and retaining employees, but very little effort and few resources go toward offboarding.

ABOUT THE ART

Tom Hegen is concerned about the impact of human intervention on the Earth. His airport photography provides a new perspective on the often chaotic experience of travel, revealing a sense of order that becomes apparent at a distance.

Employees who leave may receive a perfunctory exit interview, instructions for handing off assignments, and a pro forma description of postemployment benefits and resources—but that's about it. Sometimes they encounter impatient or rude managers; at the extreme, they may even be treated as traitors by their former bosses and colleagues.

The lack of attention to the exit process is a mistake. Even before the pandemic caused millions of job losses, the labor market was in a state of growing flux. Average job tenure in the United States has shrunk to about 4.1 years, according to the Bureau of Labor Statistics, and employee turnover is on the rise. It's time for organizations to think more carefully about offboarding. They should approach it not only as an increasingly necessary part of talent management but as an opportunity to create long-term value.

Management consulting firms have long led in this regard by treating exiting employees in much the same way that a university handles its graduating students—assisting in the transition, setting up departees for future success, and staying in touch through an alumni program. The incentives for consulting firms are too obvious to ignore: Former consultants become future clients. We believe that similar incentives exist for companies in other industries, too, where alumni may become customers, suppliers, boomerang employees, mentors to current workers, and ambassadors for the brand. A 2019 report by PeoplePath (formerly Conenza) and Cornell University indicates that about a third of corporate alumni maintain connections with previous employers as clients, partners, or vendors—and that 15% of new hires come from alumni rehires and referrals.

We have undertaken an extensive study of best practices for offboarding programs that facilitate successful transitions. Along with our own research on turnover and employee flow, we reviewed more than 125 academic and practitioner articles published from 1980 to 2020 that focused on transitions out of an organization. We compared this scholarly work with company websites, newspaper and magazine articles, and interviews with HR professionals. The offboarding recommendations that resulted, which we summarize here, apply to employees who leave a company in good standing—those who depart voluntarily or are let go because of redundancies. Our main findings indicate that savvy companies prepare for offboarding long before an employee's exit, and they approach it in a strategic, data-driven, and flexible way.

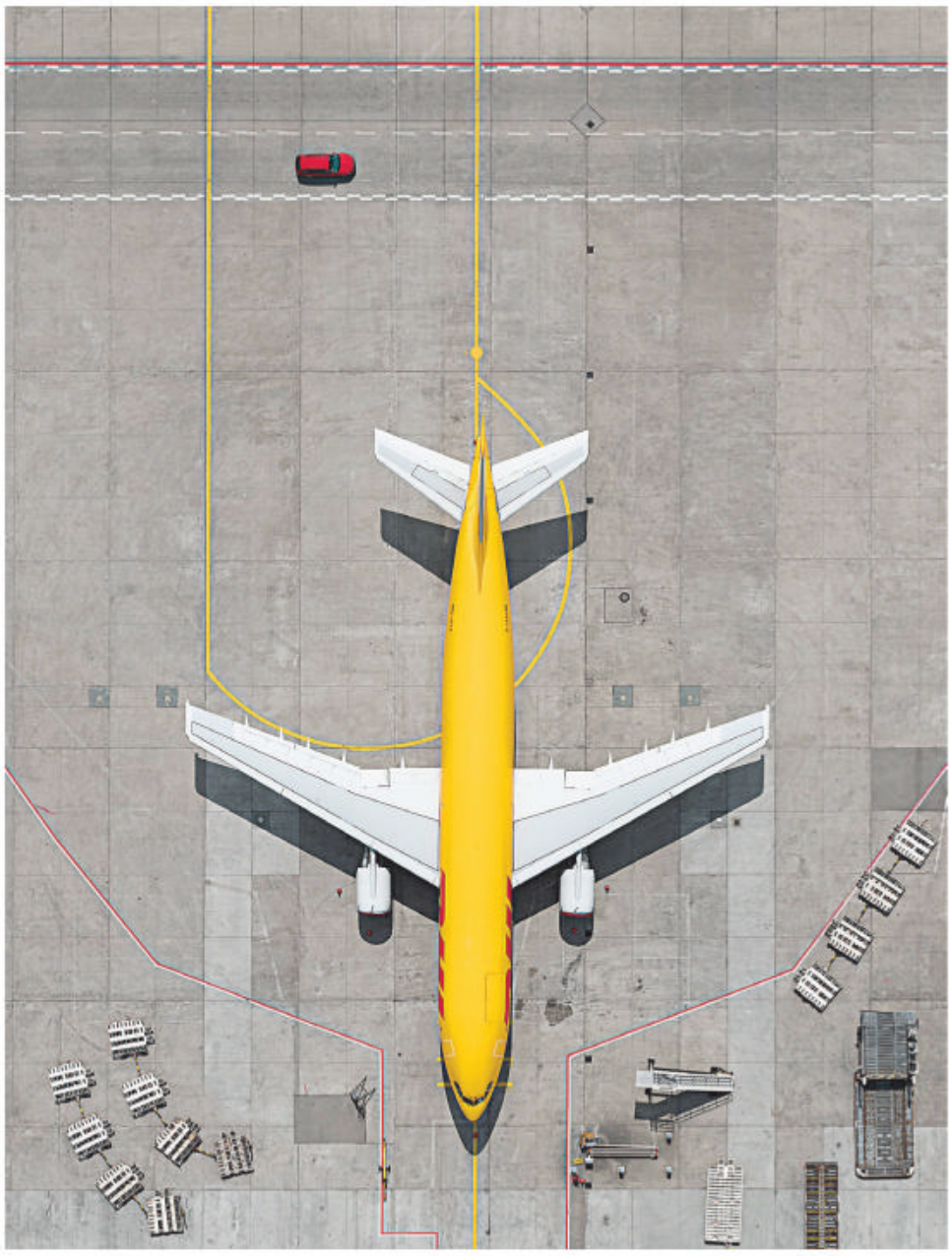
More Than Just Compliance

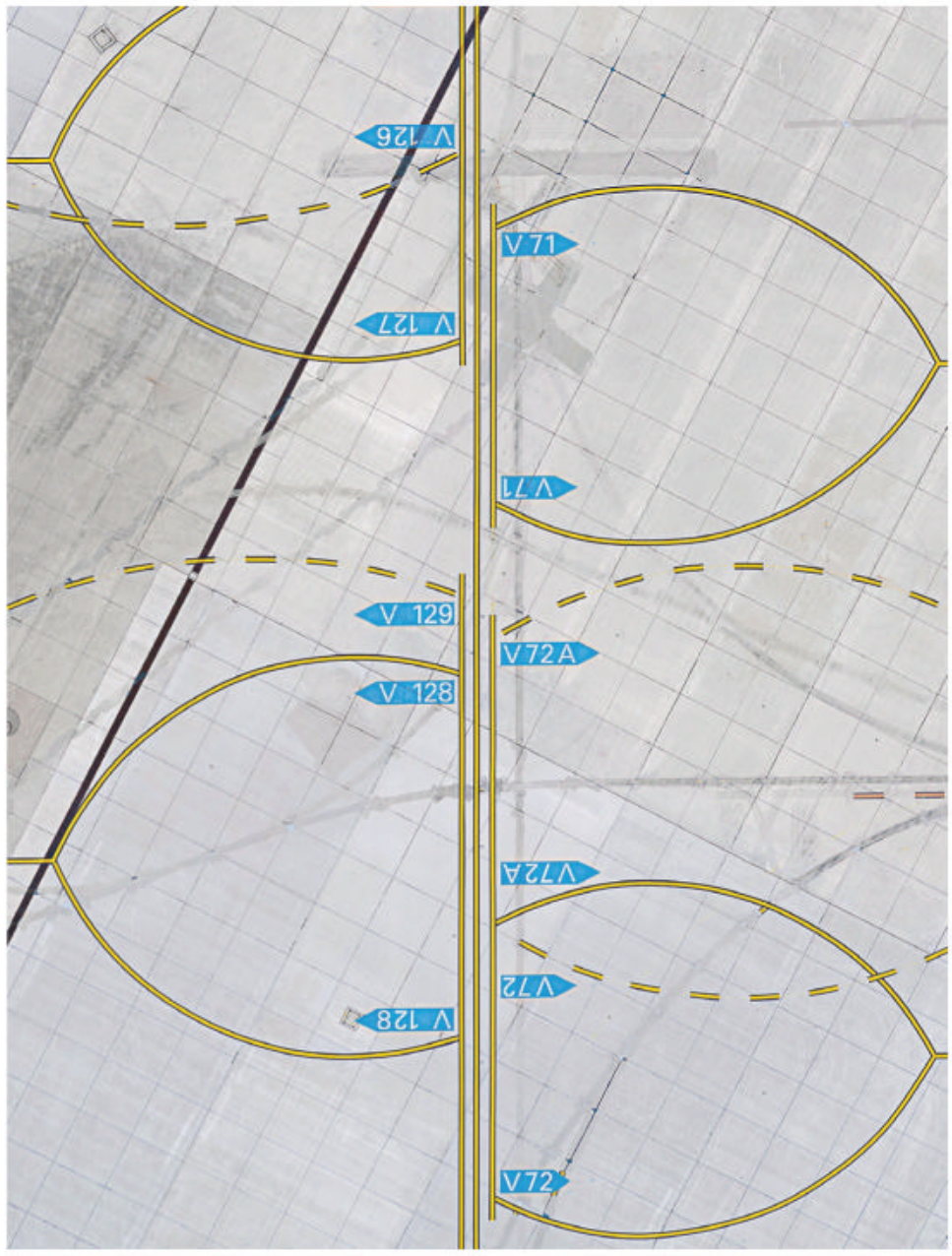
The extent to which a company invests in offboarding programs depends on its strategy, culture, budget, and turnover rate, as well as the industry it's in. But a foundational concern for every company is to ensure that all legal obligations are met when an employee departs. A carefully designed offboarding program can help protect the firm from potential litigation by establishing guidelines and systematic processes for managing employee exits.

Legal compliance is just the beginning, however. Holistic offboarding programs need to be integrated and aligned with the company's HR and talent-management policies. This involves establishing objectives for the offboarding program that support the company's talent needs. The size and scope of the organization matter, as do the skill requirements for its workers and the demand in the market for people with those skills. As George Sample, the human resources business partner manager at the Federal Reserve Bank of Cleveland, says, "The tighter the competition and the tougher the battle for talent in your industry, the more imperative it is to have dedicated and thoughtful offboarding efforts."

The best offboarding plans are also informed by a company's mission, vision, and culture. The way that management treats exiting employees sends a clear message about whether the organization lives up to its espoused commitments and values. "Companies strive to create an outstanding experience when someone enters the organization," says Mike Quinn, senior vice president for integration at the chemicals company Synthomer. "Similarly, when somebody is exiting the organization, even under trying circumstances, you want to be sure that the process and experience reflect the overall culture of the organization."

Building a humane and well-run offboarding program can have a considerable impact on people's impression of a firm's commitment to its workers. The behavioral scientist and Nobel laureate Daniel Kahneman has documented the "peak-end rule," which holds that people judge an





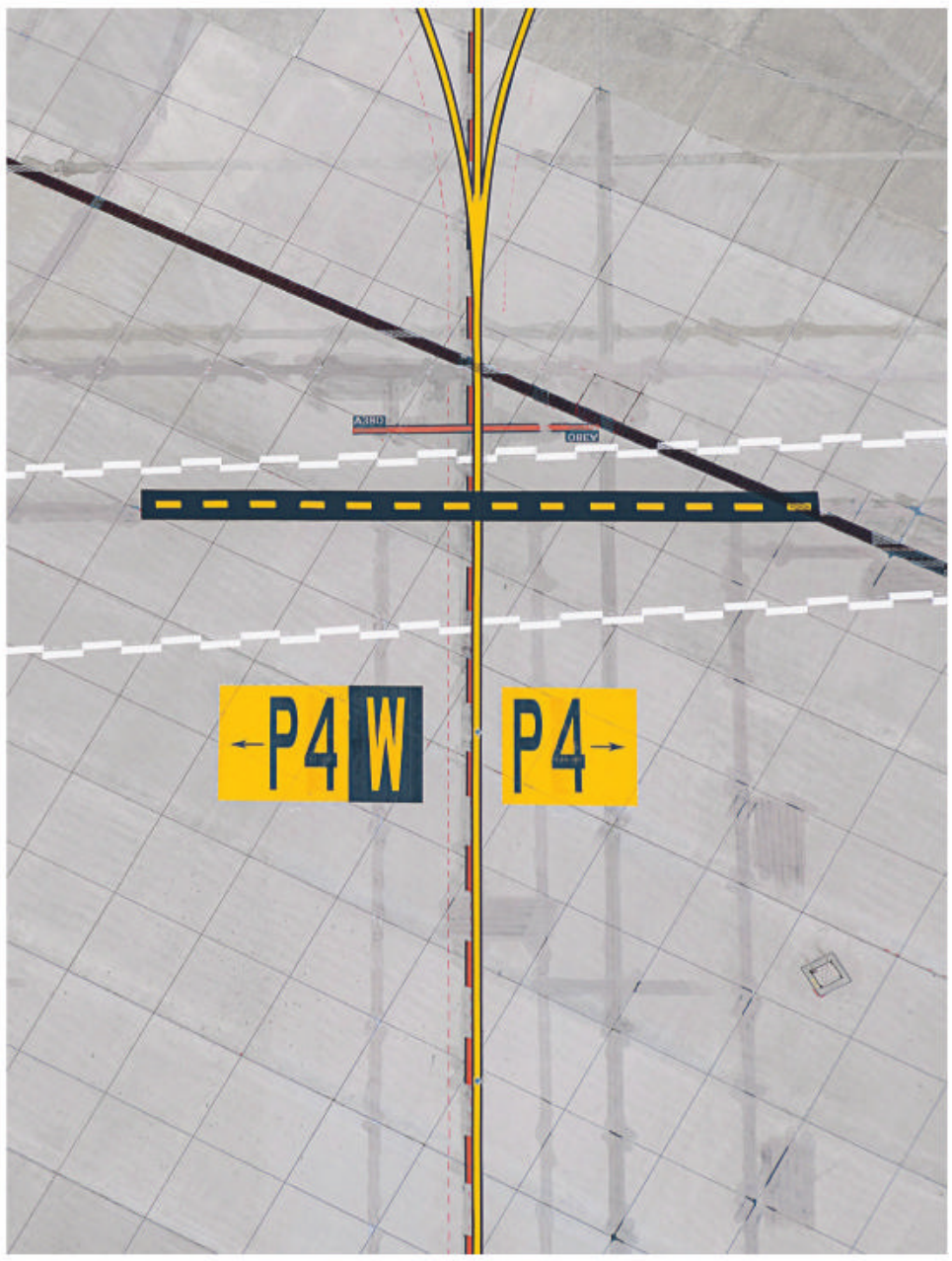
experience largely by how they felt at its peak—its most intense point—and at its end, rather than thinking about the sum total of the experience. This means that employees may pay more attention to how companies manage exits than to how they welcome new hires—and goodwill between a departing employee and an employer can instantly be undone by a poorly handled offboarding. "When people leave, they are going to talk about the company and the way they were treated on the way out," Quinn says. "You want them and your current employees to realize that people are treated well even when they leave."

Planning Ahead for Exits

So what does a holistic offboarding program look like? Somewhat paradoxically, exemplary companies pay continual attention to offboarding rather than approaching it as a singular event. Their programs go far beyond a well-executed exit interview and the clean handoff of work and responsibilities. "It is important to lay the groundwork for exits early on," a partner at a major corporate law firm explained to us.

Indeed, companies should begin their offboarding programs at the moment of hiring. Managers can tell newcomers that they hope all staff will stay until retirement but, because that isn't always realistic, resources exist to help employees build their careers both inside and outside the organization. Career discussions can then continue throughout employees' tenure, with managers acknowledging that individuals may sometimes need to go elsewhere to fulfill their goals.

Such frankness will be a big shift for many companies. Too often, career-development conversations are inhibited by a stigma about turnover. But employees are not blind to the fact that, with a few exceptions, the era of the "company man" (or woman) is over. They know they will probably have to switch jobs several times during the course of their career. Indeed, many talented mid-career executives are attracted to what LinkedIn cofounder Reid Hoffman calls a "tour of duty" appointment, in which the term limit and the expectations for personal and organizational growth are predefined.



Due to their "up or out" culture in which few associates go on to make partner, management consulting firms and law firms are particularly adept at making employees feel valued while also acknowledging the likelihood that most people will leave for another opportunity at some point. Many of these firms share details of their offboarding program with prospective hires and incoming associates—just as they share information about training, development, and rewards programs. In fact, McKinsey & Company employees are enrolled in the alumni network as soon as they join the firm, rather than when they leave.

Recognizing that "nothing lasts forever" allows employers to have more-honest conversations with employees about their careers. For example, in his various executive roles over the years, Quinn has tried to create a climate in which employees feel safe sharing sentiments such as "I am not sure this is the right place for me anymore." He encourages managers to respond with this message: "You are valued and we would hate to lose you, but if you want something we cannot give, we will support your exit and help you prepare for the next steps in your career." Quinn acknowledges that this approach is not always popular with others on his top management team. His goal, however, is not to retain every single employee but to treat people respectfully, do what's best for them, and, in the process, keep morale and productivity high.

When managers talk to subordinates about professional growth, they can back up their words with actions. They might give employees challenging assignments that will bolster their résumés, introduce them to external colleagues for networking purposes, or establish internal mentors and coaches who can serve as a point of contact if an employee decides to leave the organization. Some companies also offer "outskilling" programs to help people advance their careers by gaining skills that will make them more attractive to hiring managers both inside and outside the firm. For example, Amazon's Career Choice program pays fees and tuition and offers courses in certain fields of study for Amazon associates. Similarly, the Archways to Opportunity program helps McDonald's employees—and sometimes their families—to

earn degrees, improve English skills, and plan their careers with an adviser.

A regularly updated succession plan for mid- and senior-level staff may also be a useful part of a holistic offboarding approach because it can help spark conversations about whether subordinates have a viable path for advancement in the company. (Of course, succession plans are also just generally a good idea for ensuring continuity during transitions.) Discussions about advancement can happen formally as part of the talent-management process or be informally initiated by managers within the established guidelines of offboarding programs. For instance, when Tom Williams, then the senior vice president of store operations and human resources at Jo-Ann Stores, told a deputy that he planned to retire in five years, it started a conversation that eventually led to her departure, because she wasn't willing to wait that long for an opportunity to move up. "I helped her get a job leading HR somewhere else because she was really good," he said. "You may wish people would stay, but if they can get a bigger and better job somewhere else, why wouldn't you help them on that path?"

An approach to talent retention that includes receptivity to departures may seem startlingly progressive, or even utopian, but the benefits are not one-sided in favor of workers. Preparing for offboarding during employment can help keep managers from being blindsided by staff turnover. Companies can collect data to track employees' satisfaction and intentions to leave, which helps with human resource forecasting. That in turn allows leaders to be transparent about their expectations for staffing needs and likely turnover, which helps set the stage for amicable separations.

Furthermore, too little openness can hurt an organization, as we found in our research. Take the case of a recruiter we interviewed who had previously worked at a consumer products firm where management viewed employees who left as disloyal. If you took a job elsewhere, he said, they would never want you back, which made talking about the possibility of leaving taboo. Had the company been more open and understanding about departures, this recruiter told us, it would have turned him into an advocate for the firm after he left. Instead, when people reach out to ask him about working there, he replies: "I have to be honest—I can't recommend it."

Managing the Exit

Even in today's fluid labor market, leaving a job can be a scary experience. Amicable separations depend on offboarding practices that acknowledge departing employees for their contributions to the firm, support them by providing training and other resources to assist in their transition, and help the employer capture and integrate feedback from them.

To recognize an employee's contribution, managers should be given resources to host a party or public thank-you. Depending on the corporate culture, some organizations do even more to frame departures in a positive light. Some affectionately describe retired employees as having emeritus status—a reference to the honor that universities bestow on distinguished faculty members who retire. When associates resign from Apple stores, employees gather to applaud and cheer them as they leave. At HubSpot's offices outside of Boston, exiting employees are treated to a "graduation party" (obviously, we recommend such language only for voluntary departures). If the company has a formal alumni program, the occasion of someone's departure may also be a good time to officially welcome him or her to the alumni group.

In the case of layoffs, severance pay can go a long way to financially support those who are let go, but companies should also attend to employees' primary concern, which is almost always finding a new job. Offboarding programs can help with that. For example, when people leave Airbnb—either voluntarily or through layoffs—their profiles can be added to the alumni talent directory, which helps them find new work opportunities. Many companies also offer outplacement services to terminated employees: These can include job-search coaching, career assessment, assistance with individual brand development (such as help with LinkedIn profiles and résumés), and financial planning. The most progressive offboarding programs also offer counseling and other types of psychological support to help manage the emotions associated with being displaced.

Of course, offboarding provides an opportunity for employers to learn too. Companies should gather data by using best practices for exit interviews, such as timing them appropriately, standardizing questions, and ensuring that the information collected will be confidential and used to change practices and policies when necessary. These conversations are also the right time to address expectations for staying connected, if those haven't already been discussed. Finally, by asking departing employees about their impressions of the company's offboarding program, exit interviews can help the firm better manage departures in the future, creating a virtuous cycle. Follow-up interviews can be scheduled three to six months later to assess whether employees felt

> "You may wish people would stay, but if they can get a bigger and better job somewhere else, why wouldn't you help them on that path?"

supported not just through their exit but in the transition to their next chapter. (For a comprehensive guide to exit interviews, see the April 2016 HBR article "Making Exit Interviews Count," by Everett Spain and Boris Groysberg.)

One more note: When employees leave, some companies ask them to sign nondisclosure agreements as a condition for accessing severance pay and other benefits. Bloomberg is one high-profile example; it follows this practice to prevent former employees from talking negatively about the organization. Some departing employees may also be bound by noncompete agreements that they signed when they were hired and that restrict their employment options after they leave. We recommend against using such contracts for anything other than protecting intellectual capital and proprietary information, to avoid signaling a lack of trust.

From Employees to Alumni

Many companies now treat employees as if they were university students: They outfit offices with Ping-Pong tables, beanbag chairs, and other trappings of collegiate life; they provide free food and give out athleisure wear emblazoned with the company's logo. But of all such college-inspired benefits, a strong alumni program does the most to demonstrate an ongoing commitment to employees' careers and well-being.

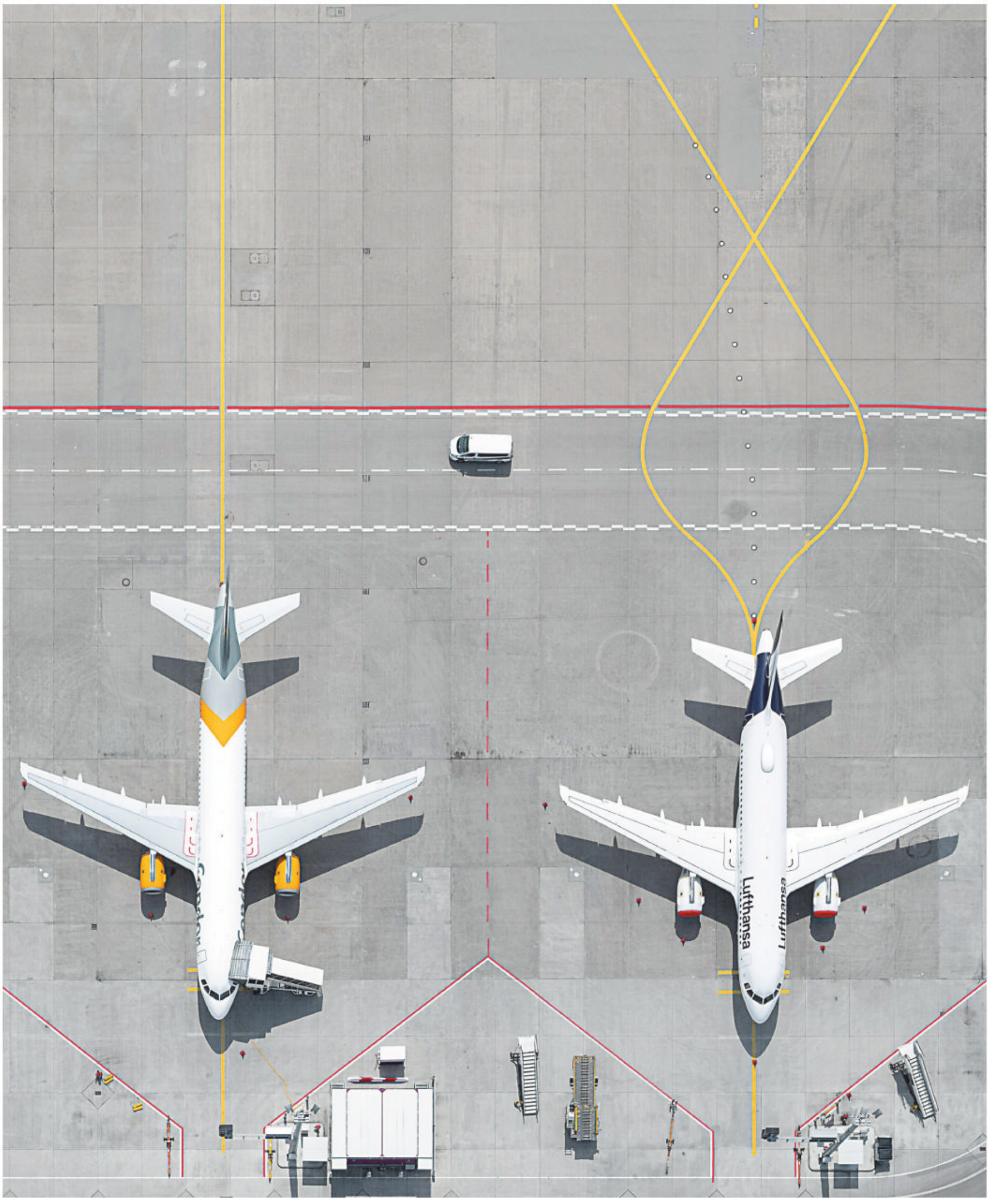
Corporate alumni programs come in various shapes and sizes. Some are overseen by company staff and have specific membership guidelines and fees; in other cases, firms simply create online groups and allow former employees to take the lead in maintaining the network and connections. The most ambitious companies offer an entire alumni infrastructure. Boston Consulting Group, Microsoft, and Deloitte use social media, dedicated alumni websites, and company newsletters to keep former employees in touch with the organization. Such platforms can be used to spotlight the achievements of both alumni and current employees, which many of our interview subjects singled out as being particularly inspiring. For example, the Federal Reserve Bank of Cleveland's Sample told us that even more than a decade after leaving a previous employer, "I still feel connected to the people I worked with there by seeing news about their milestones within the company or their successes in the places they have moved on to."

Another way to engage alumni is to include them in professional development workshops and speaker series. These can be presented through webinars and podcasts so that alumni all over the world can participate. The content is often tied to real-world events. In April 2020, for instance, in the midst of the Covid-19 pandemic, Boston Consulting Group invited alumni to a virtual town hall to learn about managing through a global crisis. Notable alumni may also be brought back to discuss career-related topics. For example, P&G recently hosted a podcast for its alumni network titled *Learning from Leaders,* featuring former employees as speakers. Some companies also offer material targeted specifically to retirees, as many seek volunteer positions or paid employment after leaving an organization.

Perhaps most importantly, alumni programs create opportunities for maintaining social connection through fun events such as happy hours and reunions. Consider eBay, which hosts dinners for "the Class of xxxx" (fill in the year) to bring together current and former employees who joined the company during the same period. Reunion events also offer an opportunity for top management to update alumni on the firm's direction and strategy—and to invite feedback. At consulting firms, these alumni sessions can be quite candid—consultants, after all, are rarely shy about offering their opinions about how a firm should be run.

Another strategy for forward-thinking companies is to offer alumni extended access to employee perks like discount programs and employee-assistance programs. LinkedIn gives each alum a premium subscription to its platform. Nestlé has an Alumni Discount Program that provides reduced pricing for a host of goods and services, including electronics, travel, cars, and entertainment. The National Football League shares benefits and wellness programs with alumni and their families. EnterpriseAlumni, which powers alumni programs for companies of all sizes, recommends engaging former workers by providing opportunities for them to volunteer or otherwise take part in community activities.

These sorts of initiatives make good business sense. Our interviews, like earlier studies, revealed that employees who are involved in alumni programs are more likely to act as referral sources or to return to work for the company in some capacity. Some firms, such as Deloitte, even incentivize such behavior by offering cash rewards to alumni for successful


Condor
Lufthansa
Lufthansa

Offboarding can't be one-size-fits-all. Not all departing employees will have the same needs, nor the same appetite for engaging on their way out.

HUMAN RESOURCES

referrals. Companies also tap alums for project-based work, paid mentoring, and even full-time career opportunities. For instance, Booz Allen Hamilton uses its database of information about former employees to fill short-term, temporary, and project-based staffing needs. Chevron offers what it calls the Bridges program, where alumni can sign up for contract assignments and consulting opportunities. TravelCenters of America also happily rehires alums; according to Christian Perez, a recruiting supervisor at the firm, "We have a program to reach out to great performers who voluntarily left to pursue other opportunities. This 'boomerang initiative' reminds these former team members that we valued their contributions when they were with us and that TA's doors are always open for them. Existing knowledge of our business practices is very valuable when we look to recruit talent."

Research suggests that more employers could benefit from offering structured alumni programs. According to the report from PeoplePath and Cornell, companies with formal alumni programs are perceived more favorably by employees than other firms are; their Glassdoor ratings average 16% higher. Yet most firms seem to be missing out on this opportunity to bolster their brand. A 2009 study done for the University of Twente found that while only 15% of companies surveyed had formal alumni networks, 67% had employees who organized informal alumni groups on their own. LinkedIn hosts more than 118,000 corporate alumni groups, but most have no formal relationship with their "alma mater" firms. The result is that many former colleagues connect in groups that are outside the control of the organization they once worked for.

A Customer Service Mindset

Offboarding cannot be one-size-fits-all. Not all departing employees will have the same needs, nor the same appetite for engaging on their way out the door. Although an offboarding infrastructure is essential, so too is the discretion of HR personnel and unit managers handling staffers' departures.

The process may look different depending on the type of employee leaving, his or her next destination, and the circumstances surrounding the departure. For instance, full-time and part-time employees may get differing treatment: Many firms offer a limited offboarding program to the latter. A senior leader who retires might welcome not just guidance regarding health care benefits and company-sponsored retirement programs, but also reassurance that her responsibilities will be smoothly handed off and her legacy will be secure. A valued employee who leaves for a competitor cannot be privy to the same information sharing and collaborating as someone who is leaving the industry, but he might be told that his contributions were appreciated and that the door remains open for a return. A parent who exits to stay home and raise children might remain interested in future job opportunities and alumni content. And someone laid off unexpectedly might care most about how the company can help him maintain access to benefits and find a new job—whether through traditional outplacement services or through connections to leaders or recruiters in other industries.

Ideally, offboarding programs will also be versatile enough to deal with external factors that influence employee turnover. The law firm Sidley Austin provides a good example: Early in 2020, in response to the Covid-19 crisis, it began offering exiting employees and alumni more resources related to work-life balance and mental health.

DEPARTURES ARE OFTEN emotional events, but a holistic, well-designed offboarding program can ensure that heightened emotions don't prevent an orderly transition. Putting such a program in place will minimize the cost of turnover and create long-term value for both the company and those leaving. As a partner at a major corporate law firm told us: "The relationship with an employee is complex; it does not end just because the employment relationship is coming to an end." Employee offboarding should therefore not be an afterthought; it should be a well-integrated component of the talent-management plan, using data and information from employees to drive decisions. In today's work environment—where people frequently move from one company to the next—thoughtful offboarding has become a strategic necessity.

HBR Reprint R2102F

ALISON M. DACHNER *is an associate professor of management at the Boler College of Business at John Carroll University.*
ERIN E. MAKARIUS *is an associate professor of management at the University of Akron's College of Business Administration.*

MANAGING ORGANIZATIONS

AUTHORS

Ashish Nanda
Senior lecturer, Harvard Business School

Das Narayandas
Professor, Harvard Business School

What Professional Service Firms Must Do to Thrive

_HBR_MARAPR21

ILLUSTRATOR KIRSTEN ULVE

They have to tightly align their practices and clients.

When

the going gets tough, companies often get desperate. So it should be no surprise that during the coronavirus pandemic and the concomitant economic crisis, professional service firms (PSFs) have been chasing after all kinds of business just to keep the lights on. We see this over and over: consultancies, law firms, accounting firms, and the like offering services and signing up clients they should never have considered. This approach to shoring up billings is perilous.

If a PSF's constituent practices are diffuse in their strategic positioning or mix of clients, the firm ends up with a weak market profile, internal conflicts, and dissension among the leadership about the firm's future direction. Conversely, if the practices are disciplined about their positioning and their client portfolio, the firm becomes stronger than the sum of its parts. In this article we'll provide a framework that shows how PSF leaders can proactively position their practices and manage their client mix.

THE LINK BETWEEN CLIENTS, CAPABILITIES, AND STRATEGY

At industrial or commercial companies, senior leaders can outline a strategy for a division and marshal support to execute it. But that top-down approach doesn't work in a PSF, because of the fluid and constantly evolving nature of the PSF's two strategic assets: its professionals and its clients.

A practice's ability to deliver value to clients rests on the skills of its professionals, and the skill set of those professionals affects the choice of clients. In turn, the clients being served affect the development of the professionals' skills. The strategy of a practice therefore is tightly linked to its clients and the professionals serving them. Whom a practice hires affects the clients it can serve, the clients it serves affect how the skills of its professionals evolve, how the skill set evolves affects the clients the practice can acquire in the future, and the cycle keeps repeating.

Practice leaders can use two tools—the *practice spectrum* and the *client portfolio matrix*—to assess, track, and make adjustments to the development and deployment of professionals and the management of the client portfolio and thus achieve lasting superior performance. These tools are based on our research over the past two decades, more than two dozen cases on PSFs that we have written, and our discussions with several thousand PSF leaders.

THE PRACTICE SPECTRUM

According to our colleague Jack Gabarro (who built on the ideas of former HBS professor David Maister), PSF practices fall on a spectrum of sophistication that ranges from "commodity" to "procedure" to "gray hair" to "rocket science."

IDEA IN BRIEF

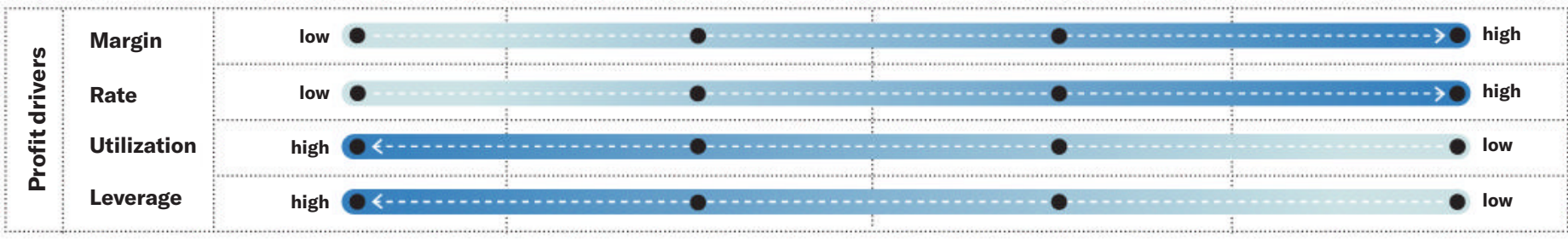
THE CHALLENGE
Amid the pandemic and economic crisis, professional service firms are offering services and taking on clients they should never have considered, just to shore up billings.

THE PROBLEM
When a firm's practices have a diffuse mix of clients and unclear strategic positioning, it weakens the firm's market profile and leads to internal conflicts, particularly about the firm's future direction.

THE SOLUTION
Practice leaders can use two tools—the practice spectrum *and the* client portfolio matrix*—to make judicious decisions about clients and ensure that their firm has developed the right talent and capabilities to serve them.*

The Professional Service Spectrum

	COMMODITY	PROCEDURE	GRAY HAIR	ROCKET SCIENCE
Client need	Solving routine, often simple problems	Implementing a complex project with several interrelated parts	Deciding on a major, ill-defined issue with which the client has little experience	Addressing a unique and difficult problem with major consequences for the client
Selling proposition	Low cost	Systematic and comprehensive approach	Track record of dealing with similar problems	Ability to solve complex challenges
Organizational capabilities	Efficient delivery processes	Methodologies	← Rigorous empirical analysis →	
			Learning from experience	State-of-the-art theory
		← Knowledge management →		
Professionals' skills	Focused execution against specific requirements	Following procedures rigorously and comprehensively	Converting specific knowledge to judgment that's applicable in other settings	Applying theoretical and empirical tools to devise innovative solutions



(See "The Professional Service Spectrum.") Successful practices are clear about their position on this spectrum.

→ A *commodity practice* helps clients with relatively simple, routine problems by providing economical, expedient, and error-free service. The Big Three Indian outsourcing giants, Wipro, TCS, and Infosys, have gained scale and recognition while operating at this end of the spectrum.

→ A *procedure practice* offers a systematic approach to large, complicated problems that may not be cutting-edge but require attention to a plethora of considerations. Accenture's Technology Consulting practice has long been an archetypal example of this.

→ A *gray-hair practice* provides seasoned counsel based on experience. Consulting firms like McKinsey, for instance, often market their strategy development advice to clients by noting that they have guided similar corporations through strategy exercises.

→ A *rocket science practice* addresses idiosyncratic, bet-the-company problems that require deep expertise and creative problem-solving. An example is the mergers and acquisitions practice of the boutique law firm Wachtell Lipton, famed for its cutting-edge work for businesses fighting hostile takeover bids.

Although a practice's profile can extend across more than one type, we've found that the best-performing practices have a sharp focus. Clients know what services such practices offer, practice leaders which performance levers to pull, and recruits what type of work they'll do. A diffuse profile dilutes a practice's identity and renders it a jack of all trades and a master of none.

Plotting a practice's profile on the spectrum enables its leaders to understand how to manage the practice, diagnose any misalignment, and shift its positioning if needed. It's important to note, however, that practice profiles change as demands of the business and the environment change. During the 1970s the newly formed strategy consultancy Boston Consulting Group, not wanting to compete head-on with incumbents like McKinsey, chose to position itself more as a rocket science than a gray-hair practice. Unlike McKinsey, which offered experience-based, judgment-driven advice, BCG offered advice that drew on innovative empirical models such as its growth-share matrix and experience curve. By the 1980s, BCG had become more of a gray-hair practice. The transition was driven in part by its leaders' recognition that rocket science practices, however successful, tend to remain small; BCG aspired to a growth rate and size that would provide ample career opportunities to its professionals.

The relevant organizational capabilities, professional skills, and impact of profitability levers vary across categories. Practice leaders must ensure that all those elements are aligned with the practice's position on the spectrum.

Recruitment and development. A rocket science practice's strategic assets are brilliant, creative professionals who

deliver innovative solutions. Do their leaders care whether their recruits' intellect is complemented by social grace? Not necessarily. The head of one rocket science legal practice described its approach to hiring this way: "We are not looking for 'polished pebbles' who come across as well-rounded and sophisticated. We seek to hire 'splendid spikes,' individuals who have extraordinary abilities on the dimensions that matter to us."

Gray-hair practices seek wise counselors whose sound judgment and tailored advice reflect wisdom gleaned from experience. Where are such professionals recruited? Usually not laterally from other firms, because they may bring with them approaches and attitudes inimical to a practice's culture. Instead these practices usually recruit individuals with an aptitude for "growing gray hair quickly," as the director of one strategy consulting firm told us. McKinsey, for instance, typically hires top graduates of premier professional schools. Academic success demonstrates an ability to absorb and analyze information, consider it from different perspectives, and articulate one's views cogently. It predicts that someone can learn quickly from experiences with senior partners and clients and develop judgment that he or she can apply in consulting engagements. Recruits are not only trained in the nuts and bolts of consulting work but also inculcated with the firm's mores, particularly those related to client service. The goal is for consultants to come across as sage advisers in both the content of their advice and its delivery.

A procedure practice seeks individuals with "fire in the belly"—a desire to achieve through hard work and enterprise. This is evident in the reason one business process consulting firm turned down a recent candidate for an associate position. When he asked how to improve his prospects with similar firms, the interviewer told him, "Your résumé and your interview conveyed a sense of privilege. It was reflected in your schooling, your choice of a major in college, and your hobbies. We worry about recruiting professionals who, if asked to work an hour longer on an assignment, convert the conversation into a philosophical debate. We're looking for individuals who have demonstrated in their background, activities, and interests a willingness to work hard and battle against adversity and the capacity to put in whatever hours the work might demand."

Whereas procedure practices value drive and tenacity, commodity practices prefer dependability. They recruit steady individuals who will produce regular output at a reliable pace and quality. A human resources executive at a commodity practice explained, "We're looking to hire people who have a minimum level of skill, are willing to undergo training to achieve proficiency, and are dependable. They do not absent themselves without notice and are not churning through organizations rapidly. Basically, we're looking for qualified individuals who are glad to have the job and sincere about doing it well."

The skills professionals need to cultivate also vary along the continuum. In commodity practices, they must learn to deliver efficiently against established standards; in procedure practices, to understand and apply methodologies rigorously; in gray-hair practices, to apply experiential learning to future projects; and in rocket science practices, to remain at the forefront of their field of expertise.

Incentives for junior staff differ as well. In rocket science practices, young professionals are motivated by intrinsic challenge, the culture of innovation, and the opportunity to develop cutting-edge skills. In gray-hair practices, they're motivated by mentorship, experience that develops judgment, and the chance to make partner. In procedure practices, they value pay for performance, bonuses for achievements, and training and experience that develop generalized skills that can be used across organizations. In commodity practices, young professionals value job security, rewards for applying themselves steadily to the tasks at hand, and overtime in the case of long hours.

Strategic capabilities. Efficient delivery, while nice for any practice, is a crucial requirement for commodity practices. Application of state-of-the-art expertise is critical for rocket science practices. Central to both procedure and gray-hair practices is knowledge management, though its nature differs at each.

Procedure practices' systems capture and codify the experiences of project teams to make them available to other teams. Professionals undertaking an external audit of a large client, for example, will follow and refine an established methodology. Knowledge management in this context involves developing and improving an effective process. Knowledge management systems in gray-hair

practices, in contrast, are more akin to the Yellow Pages than to an information storehouse. They connect experienced professionals with one another and promote a culture of developing and sharing road-tested tools, approaches, and insights. A strategy consulting partner working with a client in the automotive sector, for instance, might reach out to another partner in the firm who has worked in that sector to understand industry dynamics without breaching client confidentiality.

Drivers of profitability. In a professional service partnership, profitability, which is profit per partner, is driven by four factors, according to the following formula:

$$\frac{\text{Profit}}{\text{Partner}} = \frac{\text{Profit}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Time billed}} \times \frac{\text{Time billed}}{\text{No. of professionals}} \times \frac{\text{No. of professionals}}{\text{No. of partners}}$$

This simplifies to:

$$\text{Profitability} = \text{Margin} \times \text{Rate} \times \text{Utilization} \times \text{Leverage}$$

Profitability of publicly owned professional service companies is driven by these four plus two additional drivers: debt to equity ratio, also known as financial leverage, and capital intensity, which is capital employed per senior professional.

It's important not to use *billed rate* in the profitability calculations but to account for discounts given and use only *realized rate*. Also, some practices "value bill" their clients, charging either a fixed fee or a fee contingent on results achieved. Although they don't explicitly bill by the hour, they can calculate implied rates using estimates of time required to provide services for fixed-fee contracts and, for contingency-fee contracts, the probability of achieving desired results.

The four drivers of profitability—*margin, rate, utilization,* and *leverage*—vary along the practice spectrum. *Margins* tend to be 50% or more at rocket science practices, 35% to 50% at gray-hair practices, 20% to 35% at procedure practices, and often in single digits at commodity practices.

Rate also is highest for rocket science practices; because their services are so valuable to clients, they command big fees. At the other extreme are commodity practices that secure engagements by underbidding competitors, often in response to exacting requests for proposals.

Utilization, in contrast, is lowest at rocket science practices and rises as you move toward the other end of the spectrum. Professionals in rocket science practices must stay on the frontiers of their specialties by attending conferences and workshops, conducting research, and so on. As a result, they spend less time directly on client matters. In a commodity practice, fixed costs are high and margins are thin, so high utilization is essential to economic success.

Leverage is low for rocket science and gray-hair practices because their clients expect senior professionals to contribute significantly to service delivery. Clients of procedure and commodity practices, on the other hand, expect junior professionals to do most of the work under the oversight of senior ones.

How profitability changes along the spectrum cannot be predicted, given that two of its drivers (margin and rate) increase and the other two (utilization and leverage) decrease as you move left to right on the spectrum, from commodity to premium service. The good news is that a practice can be highly profitable anywhere on the spectrum, provided it appropriately employs its profitability levers.

MISALIGNMENT OF PRACTICES

In our workshops, most PSF leaders place their practices toward the premium end of the spectrum, regardless of where their margins suggest they belong. The mismatch becomes apparent when a practice leader says something like "I know we're a terrific practice offering excellent service to our clients. Our clients, though, don't appreciate the value we contribute and are exerting price pressure on us."

A practice's position on the spectrum is determined not by the practice leader's presumptions but by the clients' appraisal. When a leader doesn't recognize that a practice is on the less-premium end of the spectrum, problems emerge. The leader may operate the practice with low leverage and promise recruits exciting, challenging work that produces innovative solutions. But clients will be more concerned with efficient delivery of relatively routine solutions. They'll exert price pressure, forcing the practice to focus on metrics more appropriate to commodity services, such as utilization. The professionals will then be frustrated by the nature of the work and the way they're being managed. As a result, the practice will flounder.

There are two reasons for such misalignment. One is pride that sometimes borders on arrogance. Professionals often overestimate the distinctiveness of their offerings. The other is that over time a practice drifts to the left on the spectrum. It may have started out as specialized but gets commoditized as competitors copy its offerings, clients internalize some elements of the service, technology helps diffuse knowledge,

and people move, taking their expertise to other firms. What was rocket science yesterday becomes gray hair today, procedure tomorrow, and commodity the day after.

Practices can counter this drift in various ways. They can try to safeguard distinctive features of their service by limiting knowledge leaks—impeding competitors' access to information, minimizing professionals' turnover, and setting up technological barriers. Rocket science advisers in financial services, for example, maintain secrecy about precisely how they arrive at their recommendations, and gray-hair consulting practices nurture a mystique that protects their intellectual property even as it adds to their brand image.

Fighting drift solely by striving to maintain the status quo, however, can be a losing battle. A practice must innovate, launching unique new offerings, and give up offerings that have become commoditized. Neither is easy to do. Innovation is by nature Schumpeterian: As it creates new solutions, it destroys the existing order. Professionals will resist innovation mightily if it threatens to make their skills obsolete.

Giving up existing business is also challenging. The justifications for continuing with commoditized offerings often are that any revenue above marginal cost will boost the bottom line and that continuation of service will stave off competitors. Such a line of reasoning is most vigorously advanced by practices that measure performance by revenue or are operating below capacity. But it disregards the fact that once a practice has become commoditized in the market's view, it's extremely difficult for it to move back toward the premium end of the spectrum, and the long-term damage to the practice can be devastating.

CLIENT PORTFOLIO MANAGEMENT

To achieve superior performance, a practice has to manage both its capabilities and its client portfolio systematically.

A useful way to examine portfolios is to determine where clients fall in the four quadrants formed by comparing the cost to serve clients (CTS) with clients' willingness to pay (WTP). (See the exhibit "Different Types of Clients.") This matrix is similar to the one used in the 1987 HBR article "Manage Customers for Profits (Not Just Sales)," by Benson P. Shapiro, V. Kasturi Rangan, Rowland T. Moriarty, and Elliot B. Ross. CTS doesn't include direct service costs (such as billable hours and expenses). Rather, it comprises all the indirect costs incurred, including client acquisition and client relationship management and retention efforts.

We have found that PSFs pay a lot of attention to direct costs, because in addition to being easily measured and managed, they're captured as revenue and are the lifeline of practices. Firms are generally not as diligent about monitoring indirect costs, which are treated as overhead. In fact, indirect costs account for a substantial part of the overall cost structure of a practice and can vary significantly across clients. While hard to measure, these costs can have a sizable impact on the true profitability of a client relationship.

One might assume that the ideal is to have all clients be in the low CTS/high WTP quadrant. A few practices have successfully employed this strategy, but they've tended to be boutique businesses. For instance, Wachtell Lipton focuses primarily on high-stakes M&A transactions, but because it does not have other large practices, it is the smallest of the top 100 U.S.-based law firms.

A practice may also attempt to cluster clients in the high CTS/high WTP or low CTS/low WTP quadrants. (Note that clients in those two quadrants may be equally profitable.) Practices that focus on building relationships in the first are typically market leaders, while those focused on the second are intent on being the lowest-cost providers. Either approach demands extreme discipline. When firms are forced to play in both quadrants at once (which is often the case for market share leaders), things are even more difficult because the nature of client relationship management differs dramatically in each quadrant.

Most practices discover that their clients are spread across all four quadrants. That indicates that they have no clear strategy and are trying to be everything to everyone. This happens mainly because they can't say no to clients. Irrational confidence about being able to turn any situation around makes it hard to pass up opportunities. And a lot of practices will undertake any task a client puts forward rather than allow a competitor to develop a relationship with it. The tendency to obsess over revenues rather than profits, moreover, fosters an "any business is good business" mentality.

Few practices gather all the data needed to get a complete picture of their client relationships. And though each partner tries to optimize his or her own client portfolio's profitability, that doesn't necessarily lead to maximized profits for the practice, which might require jettisoning some clients of individual partners.

RELATIONSHIP STRATEGIES FOR EACH QUADRANT

Now let's look at how to approach relationship management with the four kinds of clients.

1 High CTS/high WTP. Clients in this quadrant typically view the practice as a value-adding partner and look for long-term commitment. They consciously choose not to develop expertise in-house or make investments that could reduce their need for the practice's services. One reason strategy consulting firms exist, for instance, is that clients have chosen not to build internal strategy capabilities. Hiring and maintaining top-notch business development skills is far more expensive for them than periodically paying an outside firm to develop strategic plans. These clients commonly demand turnkey solutions and expect a lot of hand-holding. In our analysis of PSF practices, we find that 15% to 20% of a practice's clients are usually in this quadrant.

2 Low CTS/high WTP. Broadly, there are two client segments in this quadrant. The first are *unwaveringly loyal* clients. They deeply value the services provided and will pay a premium to keep getting them. This may seem irrational at the transaction level, but it makes sense when viewed through the lens of a long-term relationship. The clients are happy to reward a practice for past assistance and a guarantee of continued service. The costs of serving them can drop as a practice becomes better at acquiring and retaining professionals to support them.

The other segment we call *spuriously loyal* clients. These include *uninformed clients*, who don't know they're paying high prices and can be easily lured away; *unconcerned clients,* who have concluded that the cost of negotiating price reductions far exceeds the benefits; and *hostages*, who can't end a relationship with a practice because of high switching costs.

A practice that wants to be more strategic about its clients would probably start by targeting those in this quadrant, particularly the unwaveringly loyal ones. Unfortunately, in our experience fewer than 10% of a practice's clients are likely to be in this quadrant. When clients are at risk of falling out of it owing to intense price competition or the forces of commoditization, a practice can proactively migrate them to the high CTS/high WTP quadrant through timely innovation or let the relationships slip into the low CTS/low WTP quadrant.

3 Low CTS/low WTP. This quadrant also comprises two client types. One rejects all valued-added services and wants the core, unbundled offering at a reduced price. Nearly half a mature practice's clients tend to be of this type, and they can often be lured away by the smallest price differential. They can be profitable only if practices formulate lean relationship strategies (for example, replacing on-site tech-support teams with online self-help). Firms that add expensive support services and other bells and whistles and expect to be paid for doing so are likely to see such clients walk. At best, these clients will agree to use additional services for free, increasing the practice's CTS. One tactic we've seen more and more practices use in the past decade is to offshore account management activities or digitize extra support services to lower clients' CTS.

The second type of client—usually accounting for 10% to 15% of a firm's portfolio—works with the practice to reduce costs through joint investments and learning. A client might try integrating its systems and processes with the PSF's, assume some functions traditionally provided by the practice, or explore with the practice ways to provide the service more efficiently. Such clients effectively force practices to innovate in service delivery. Investments in relationships with them tend to be idiosyncratic and hence have little value elsewhere, so switching costs are elevated for both sides, encouraging long-term relationships. In fact, relationships with this type of client can be the longest-lived in a portfolio. They are common with long-term outsourcing arrangements, in which the practice's team is usually housed in the client organization and processes are so intermingled

Different Types of Clients

that in time it becomes hard to separate the functions provided by the internal teams from those provided by the practice. We have seen this happen sometimes with accounting firms' audit teams that serve global clients. In some parts of the world, regulation now mandates a change in providers after a specific period to prevent the unwanted side effects of close relationships, such as reduced auditor independence and objectivity.

4 High CTS/low WTP. Clients in this quadrant are at best marginally profitable. They end up here for a variety of reasons. Often they're a practice's largest clients, volume-wise. The power asymmetry in the relationship and a practice's desire to keep the client at any cost can be a disastrous combination, especially when the practice's services come to be perceived as commodities. We have often heard account teams joke that such accounts have been internally labeled "strategic" in order to make it difficult to fire them or take action to improve their profitability.

Client relationships in this quadrant aren't always bad. Sometimes rocket science or gray-hair practices with high fixed costs are forced to take on marginally profitable business to utilize capacity, especially during downturns. It's also common for *showcase accounts*—marquee clients that enhance practices' reputations—to be in this quadrant. Practices that provide multiple services to a client have often used one as a loss leader to acquire the account. Some services are literally given away to protect margins of other, more profitable lines. "Learning" relationships also can land in this quadrant: A client willing to share the risk of developing a new offering will often expect a discount for having "skin in the game."

Practices typically use a foot-in-the-door approach, acquiring clients through offers of low prices and high levels of hand-holding. The plan is to increase prices or cross-sell other services to them over time—common tactics in software and technology services. While that approach has merit, it's ineffective when the focus is just on raising prices. Though in rare instances clients may be unable to exit a relationship, most are smart enough to detect and unwilling to accommodate a price escalation. The only effective solution is to expand the scope of the relationship.

A relationship in this quadrant can become dangerous, however, if the amount of hand-holding creeps up over time. Gradual but constant increases in costs to serve can go unnoticed for a long period, and practice leaders are often shocked to find that clients they believed were in other quadrants are, in fact, in this one.

We have observed clients in this quadrant consume as much as two-thirds of a practice's resources while accounting for about a third of its revenues. The easiest way for a practice to improve financial performance is to shed them or migrate them to more-profitable quadrants. Moving these clients to the high CTS/high WTP quadrant is extremely difficult, because it involves getting them to pay higher prices, but one strategy is to introduce innovations that change the game in the relationship. A more straightforward approach is to educate clients about the true costs to serve. We've occasionally seen clients accommodate changes in the delivery of services if the accommodation reduces the CTS without affecting the value provided. But at the end of the day, a practice should be clear about the reasons for having a client in this quadrant and plan to move away from any relationship that cannot be economically or strategically justified.

The professional services game is no longer just about maximizing market share; the quality of market share also matters. Client portfolio analysis can help practices improve it. They'll need to perform it often to track changes in individual relationships over time and assess whether they're beneficial. If not, practices can make timely adjustments and take corrective action well before any relationship spins out of control and becomes an unprofitable resource drain.

OUR FRAMEWORK ALLOWS practice leaders to develop an understanding of the interplay between their business's supply side and its demand side. On the supply side, leaders analyze the practice's location on the practice spectrum and what that implies about the skills and capabilities to be developed. On the demand side, the leaders develop a profile of the client portfolio and figure out which accounts to cherry-pick and how to differentially serve various clients.

By using this framework, a practice can develop a clear profile, among both clients and professionals, and formulate a coherent strategy for itself. After all, good strategy is about knowing who you are and making the right choices.

HBR Reprint R2102G

ASHISH NANDA *is a senior lecturer of business administration and the C. Roland Christensen Distinguished Management Educator at Harvard Business School and former director of the Indian Institute of Management at Ahmedabad.* **DAS NARAYANDAS** *is the Edsel Bryant Ford Professor of Business Administration, senior associate dean for Harvard Business Publishing, and senior associate dean for external relations at Harvard Business School.*

SOCIAL RESPONSIBILITY

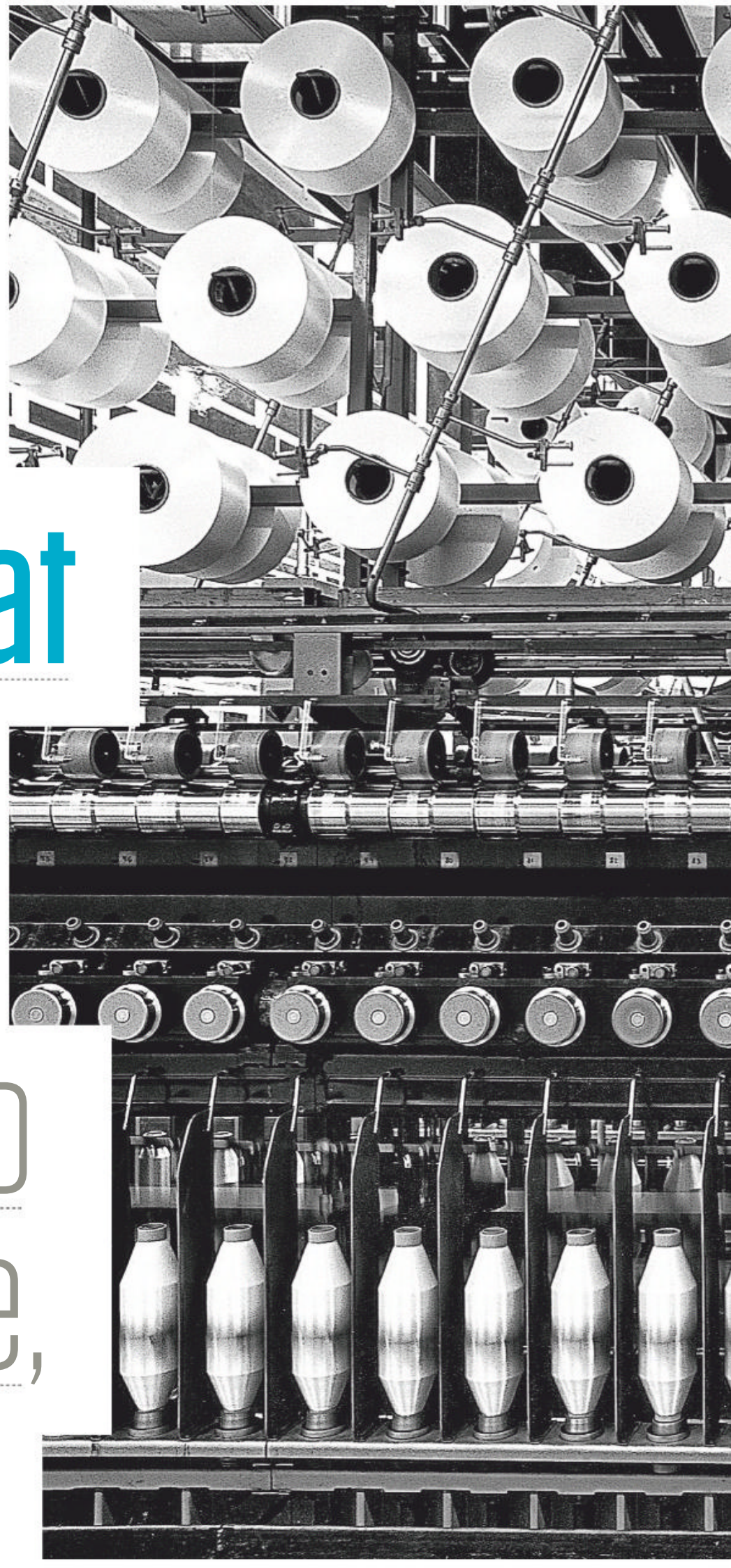
AUTHORS

Jodi L. Short
Professor, UC Hastings Law

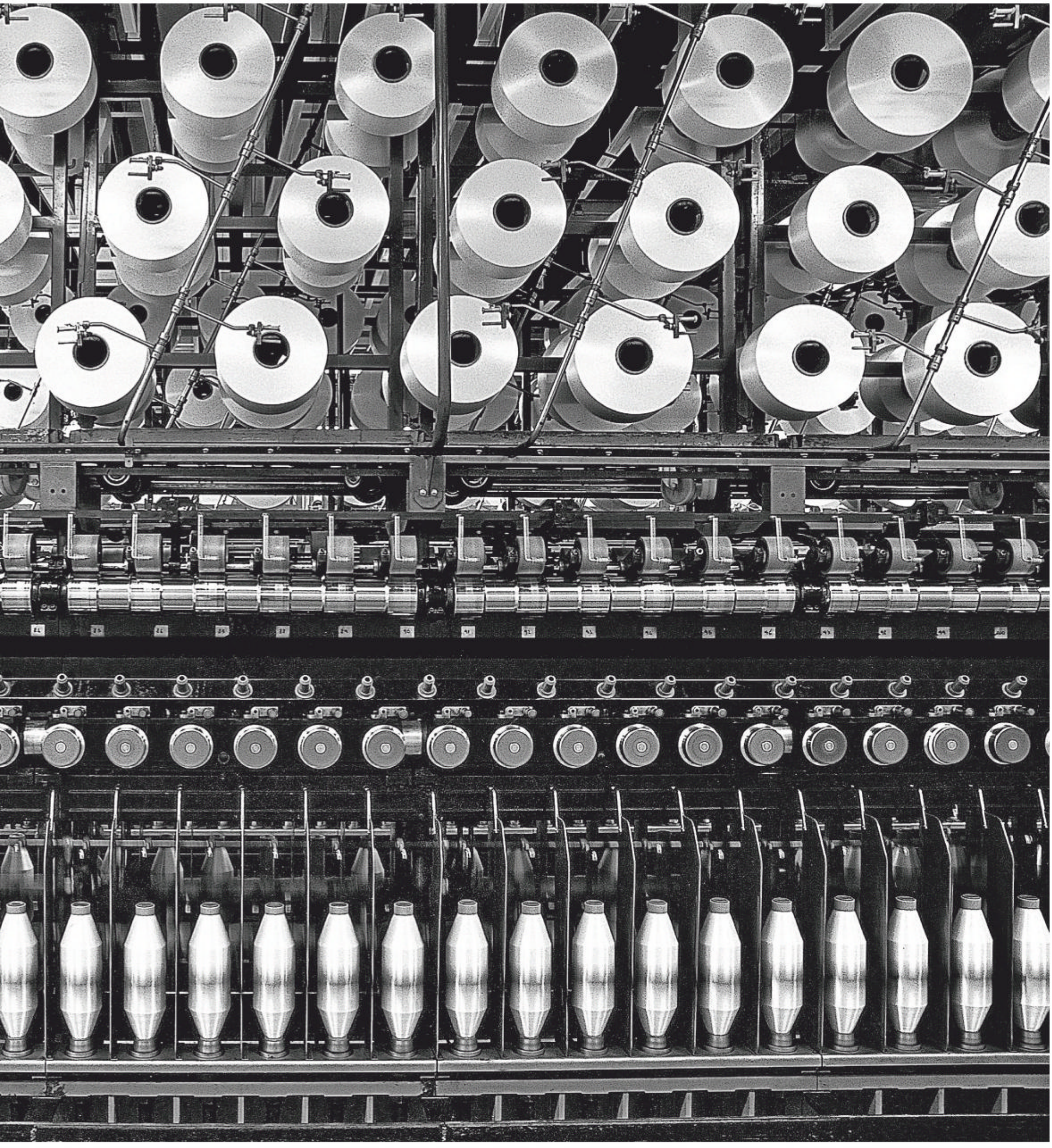
Michael W. Toffel
Professor, Harvard Business School

Manage the Suppliers That Could Harm Your Brand

Know when to avoid, engage, or drop them.



PHOTOGRAPHER NICCOLÒ BIDDAU



Companies have long faced reputational risks from harmful and abusive working conditions in their supply chains.

In the 1990s exposés revealed rampant child labor and brutal conditions in factories making products for Nike, marring the brand's carefully cultivated image. In the early 2000s Apple faced a barrage of activist pressure and embarrassing media coverage following a rash of suicides at the factory of its supplier Foxconn. The pandemic is placing a new spotlight on such dangers: Consider the media allegations of low wages and inadequately protected frontline workers at UK suppliers' factories making apparel for Boohoo and the swift action by investors and retailers to dump the brand. One strategy that many companies adopt to avert such problems: Impose codes of conduct that stipulate minimally acceptable working conditions in suppliers' factories. Numerous firms also periodically audit their suppliers to assess compliance.

Do these measures actually help managers identify unethical suppliers and lead to improvements in conditions for workers? When an audit reveals that a supplier falls short, what are the chances the supplier will remedy matters? Is the relationship worth the risk to the purchasing company's brand? To answer these questions, we conducted a series of studies using tens of thousands of code-of-conduct audits of thousands of factories around the world. This uncovered several factors that predict which suppliers are likely to improve conditions over time and suggests several steps purchasing companies can take to ensure that they do. These insights can guide managers who are seeking to decide which potential suppliers to avoid, which existing supplier relationships to continue investing in, and which ones to walk away from. (See the digital version of this article for links to the research we cite. And for the latest managerial insights from research in this area, visit the Working Conditions in Supply Chains website we developed with colleagues at Harvard Business School: hbs.edu/workingconditions.)

Which Suppliers Are Likely to Improve?

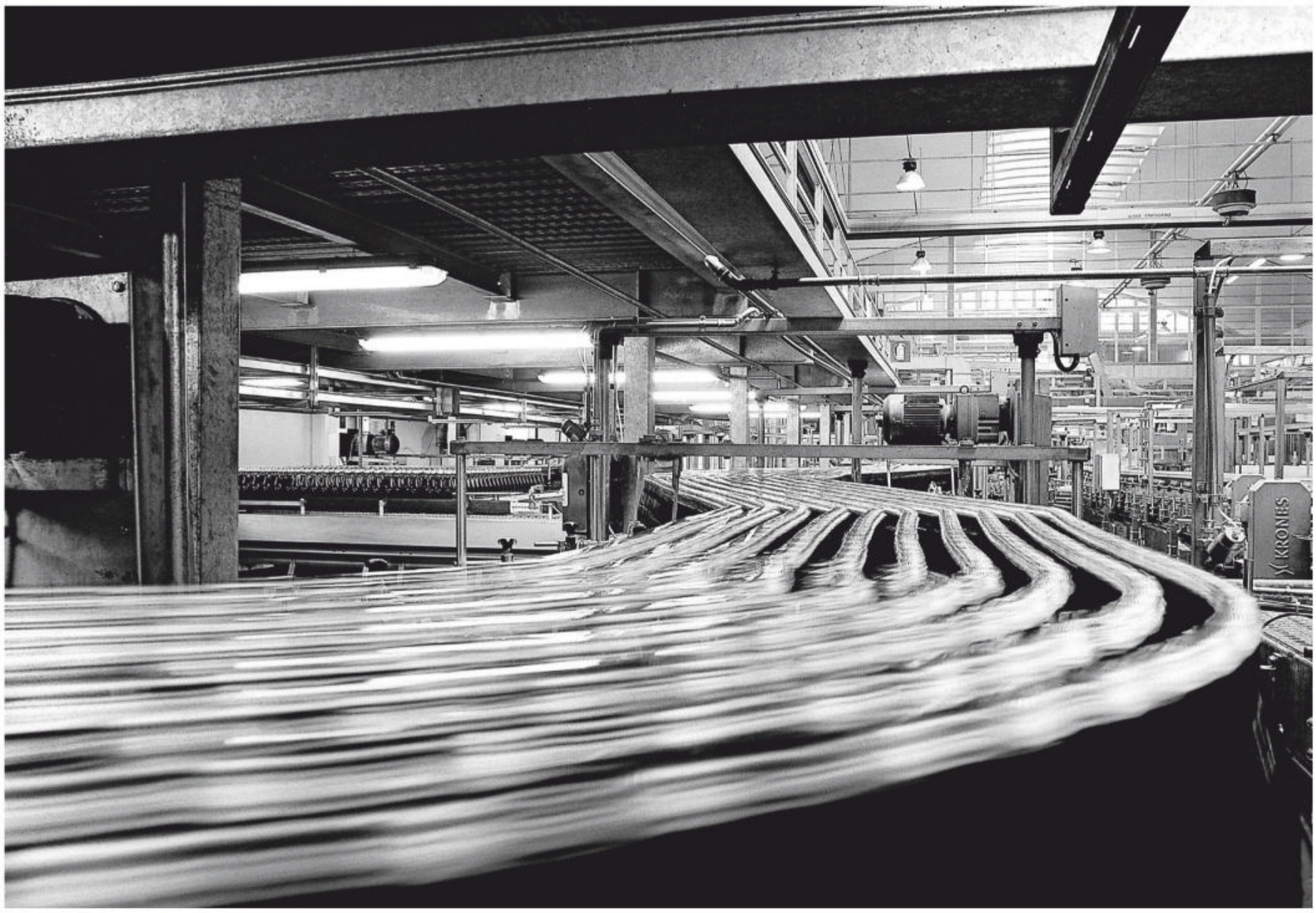
Countries and cities vary, of course, in terms of production costs, labor availability, general working conditions, and propensity for strikes and other disruptions. Our research indicates that such locational differences can reinforce or undermine efforts to encourage suppliers to improve their

IDEA IN BRIEF

THE PROBLEM
To ensure that their suppliers don't abuse or harm workers, companies impose codes of conduct and perform periodic audits. But the effectiveness of these measures has been unclear. How can companies know which potential suppliers to avoid, which existing relationships to maintain, and which ones to end?

THE PREDICTORS
Research by the authors and others suggests that five factors indicate whether suppliers are likely to improve conditions over time: certified compliance with common quality and environmental standards, the adoption of lean management, unionization, rejection of piece-rate pay, and serving once-tarnished buyers.

EFFECTIVE PRACTICES
Companies can take seven steps to assess suppliers' performance and increase the odds of improvement. They can use highly trained auditors, announce audits in advance, rotate auditors or change the auditing firm, include at least one female auditor, choose and pay auditors themselves, avoid fully outsourcing audits, and align activities of their purchasing and social responsibility teams.



Gallery Stock

working conditions. For example, we found greater improvement among suppliers in countries with more nongovernmental organizations per capita and more media freedom than in other countries; both factors heighten the probability that harmful working conditions will be exposed. This suggests that buyers ought to monitor suppliers in countries with low NGO density and restricted media freedom—countries such as Bangladesh and China—more closely than they monitor suppliers in countries with high NGO density and media freedom, such as Honduras and Jordan.

But that's just a start. Factories within a given country may vary widely with regard to working conditions and the willingness and ability of their owners and operators to improve them. Which suppliers are more likely than others to take the necessary steps? On the basis of our research and that of others, we have identified five factors.

Certified compliance with management system standards. Our research with Yanhua Bird found that factories adhering to management system standards such as ISO 9001 (process quality) and ISO 14001 (environmental management) tended to be better than uncertified suppliers at improving working conditions. Suppliers opt in to such standards and hire third parties to attest that they comply. The standards require suppliers to conduct internal audits and institute procedures to promote continuous improvement, such as action plans that encourage workers and managers across silos to identify, communicate about, and remedy problems. Such a system creates an engine that drives improvement not only in quality and environmental protections but also in working conditions.

Adoption of lean management. The lean system is a set of practices that include standardizing procedures, team-based problem-solving and quality control, continuous improvement to eliminate waste, and production planning to minimize peaks and troughs in the use of labor and equipment. Two studies of Nike suppliers (one by Greg Distelhorst, Jens Hainmueller, and Richard Locke and the other by Richard Locke, Fei Qin, and Alberto Brause) found that it improved compliance with labor standards relating to wages and hours. (Compliance with health and safety standards was unaffected.) In addition, lean management requires training workers to identify quality problems and managers

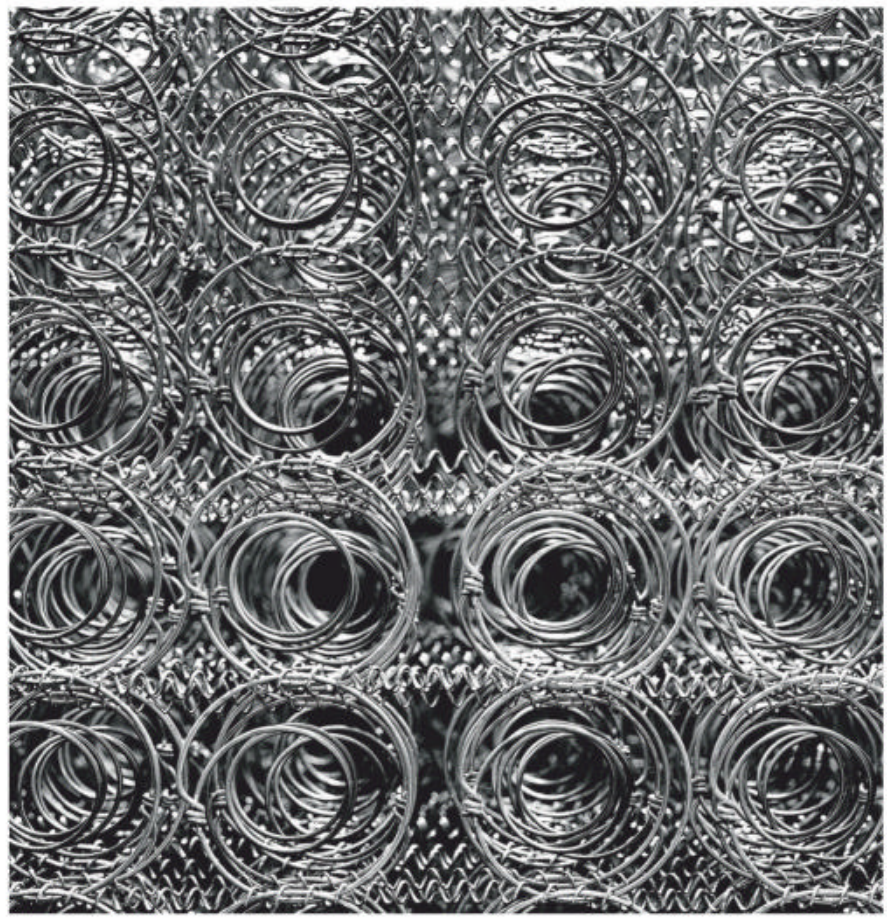
Audits tend to spark greater improvement when they are conducted by highly trained auditors, who are better not just at detecting problems but also at suggesting solutions.

to schedule workloads more efficiently to avoid excessive overtime. The studies found that after a factory adopted the lean system, managers became more reluctant to mistreat workers and exhibited greater concern that people might defect to a competitor. Results suggest that applying lean management can increase workers' skills and boost management's efforts to motivate and retain workers through better employment terms.

Unions. Our study with Yanhua Bird also revealed that following an audit, unionized suppliers improved working conditions more than nonunionized suppliers did. Although unions in developing countries can't always increase workers' political power, they promote dialogue between managers and workers in ways that can be helpful. They can enable workers to make management aware of hazards and to share proposals for mitigating them. They can also help management communicate with workers about health and safety standards and reinforce adherence to desired procedures.

Avoidance of piece-rate compensation. Factories that pay workers by the units they produce tend to exhibit less improvement in working conditions than factories with other compensation systems, according to our research with Yanhua Bird. Piece-rate pay incentivizes workers to focus on short-term production goals, potentially discouraging practices that would boost compliance with labor standards but might reduce productivity—for instance, wearing protective equipment, participating in safety and emergency preparedness training, and using machine guards.

Serving once-tarnished buyers. Our most recent research with Andrea Hugill found greater improvements in working conditions among suppliers serving brands that had experienced negative publicity related to other suppliers' labor practices. We suspect that this happens because such buyers are particularly worried about facing similar criticism in the future, which would demonstrate that they hadn't learned their lesson. Consequently, they are more likely to be cautious when selecting new suppliers and to step up efforts to scrutinize them, encourage and support improvements, and walk away when bad conditions persist. Such suppliers should be attractive to companies with unblemished records, which can piggyback on the due diligence of their once-compromised counterparts.



How Can Monitoring Improve Working Conditions?

Companies can boost the odds of improvement by using monitoring methods we identified in separate research projects conducted with Ashley Palmarozzo and Andrea Hugill. They should:

Use highly trained auditors. We found that audits tend to spark greater improvement when they are conducted by highly trained auditors, who are better not just at detecting problems but also at suggesting solutions. The notion that auditors can play a valuable role by making suggestions is supported by other work. For example, a study one of us conducted with David Levine and Matthew Johnson showed that health and safety regulatory inspections in California prompted substantial reductions in injuries. The head of the Occupational Safety and Health Administration at the time attributed this to inspectors' having essentially provided "a professional safety or industrial hygiene consultation" while they were assessing compliance.

Announce audits in advance. Many companies conduct surprise audits to avoid giving suppliers time to cover up transgressions. Indeed, our research has shown that unannounced audits reveal more problems than preannounced visits do. But that's only part of the story. Although companies want a full picture of what's going on at their suppliers, they also want their suppliers to improve. And according to a study by Richard Locke, Matthew Amengual, and Akshay Mangla, announcing audits in advance can foster teamwork and trust between the auditor and the supplier, which promotes learning. Our research with Andrea Hugill likewise shows that announcing audits can speed improvement. Companies should align the design of their audit programs with the programs' goals. If the primary goal is to catch suppliers in the act, notifying them of upcoming audits is a bad idea. But if the goal is to foster relationships that will lead to improvement over time, such notifications can be a useful tool.

Align the activities of the purchasing department and the social responsibility team. A study of Gap's suppliers by Matthew Amengual and Greg Distelhorst found that suppliers that failed an audit improved only after Gap formally linked the future of the business relationship to the supplier's labor standards by coordinating the activities of its own purchasing and social responsibility departments. When those departments were siloed, as they are in many companies, failing suppliers made no improvement.

How Can Firms Better Track Performance?

Our research also reveals several factors that result in more-accurate audit reports, critical to managing brand risk.

SOCIAL RESPONSIBILITY

Rotate auditors or audit firms. We discovered that audit teams produce more-accurate audits when any member is conducting his or her first inspection of the factory at hand or when the factory's prior audits were conducted by a different firm. This finding demonstrates the importance of fresh eyes.

Include a female auditor. We found that audit teams with at least one female member reported more violations, perhaps because they were less likely to let violations slide or because women are more likely than men to elicit sensitive information in interviews, particularly if the factory's workforce is largely female.

Choose and pay auditors rather than have the supplier do so. Many companies reduce costs by requiring their suppliers to pay for audits—and some even allow suppliers to choose the auditor—but that can be "penny wise and pound foolish." It sets up a conflict of interest that might tempt auditors to paint an unduly rosy picture. Indeed, our research has shown that when the purchasing company pays the auditor, more violations are reported.

Don't fully outsource auditing. Our ongoing work with Ashley Palmarozzo is yielding preliminary evidence that audits are more accurate when the purchasing company uses its own staff or hires third-party auditors but has its own staff conduct some inspections in the same market. This approach increases the control that buying companies have over auditors and allows them to better monitor the quality of any third-party audits they use. Companies need to carefully weigh the trade-off between the greater flexibility and cost-efficiency of outsourcing audits and the higher quality that tends to result from using at least some in-house staffers.

MANAGING WORKING CONDITIONS in global supply chains is an ongoing challenge. The findings described here can empower managers to better predict which factories are more likely to improve working conditions and to design monitoring programs to foster such improvement and accurately track performance.

HBR Reprint R2102H

JODI L. SHORT *is the Honorable Roger J. Traynor Professor of Law at UC Hastings Law.* **MICHAEL W. TOFFEL** *is the Senator John Heinz Professor of Environmental Management at Harvard Business School.*

ORGANIZATIONAL CULTURE

AUTHORS

Anne-Laure Fayard
Associate professor, New York University

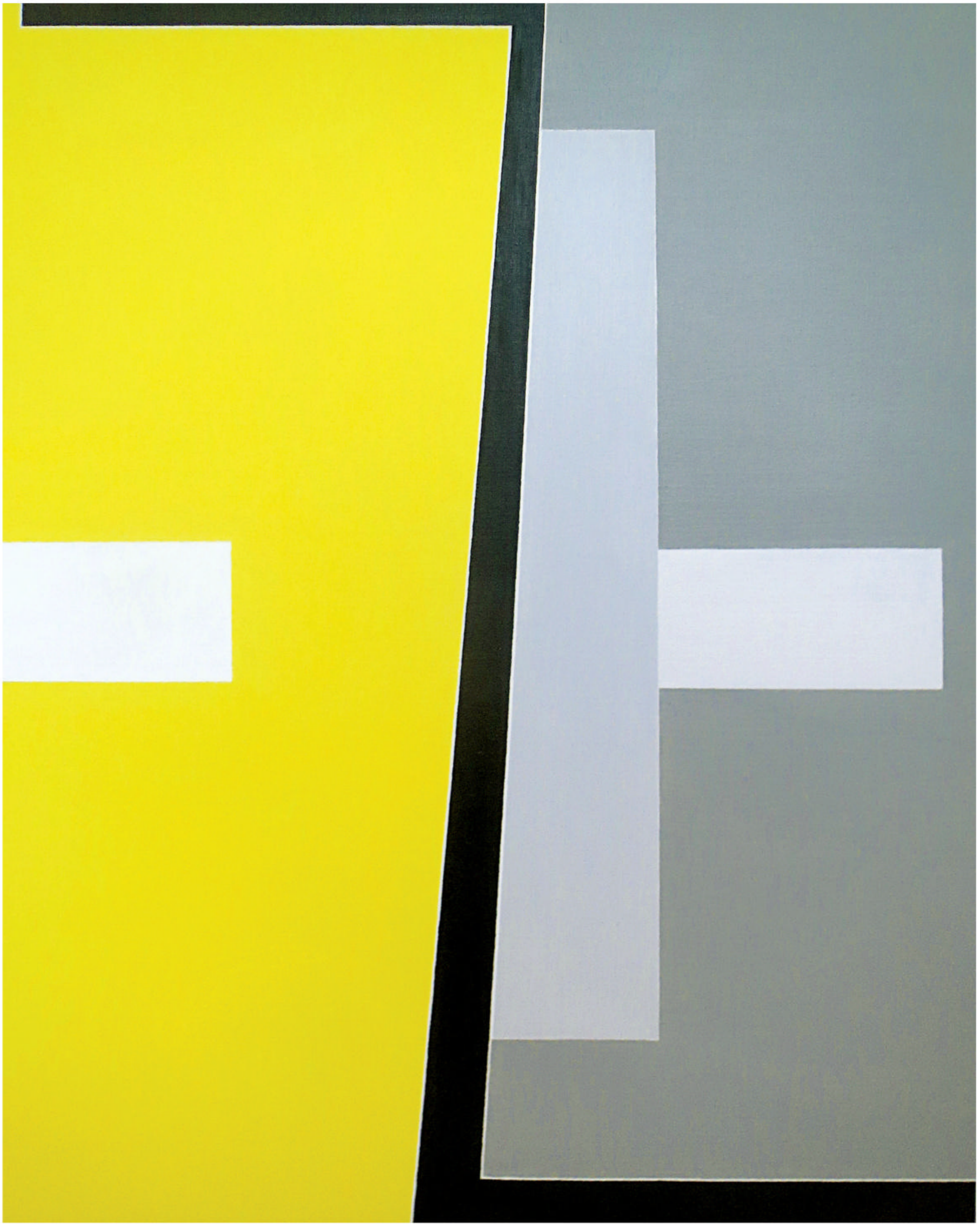
John Weeks
Professor, IMD

Mahwesh Khan
Research associate, IMD

Designing the *Hybrid Office*

From workplace to "culture space"

ARTIST
FELRATH HINES



Felrath Hines, *Trellis*, 1986, oil on linen. Gift of the artist's wife. ©Felrath Hines Estate. Courtesy of the Fort Wayne Museum of Art. Previous page: Felrath Hines, *No. 26*, 1988, oil on linen, 36" x 30"

in June 2019 the International Olympic Committee (IOC) opened Olympic House, its new headquarters, in Lausanne, Switzerland. Constructed over six years, at a cost of $150 million, the new building was empty within just nine months. IOC staffers, like knowledge workers around the world, were working from home.

The natural experiment forced on the world by the coronavirus demonstrates that the academics and tech visionaries who have been talking since the 1980s about the possibilities of remote work were not exaggerating. Research from before the pandemic established that some workers in wealthy industrialized countries can work effectively from home, and that about 80% of them would like to do so, at least some of the time. After months of working remotely, employers, too, have learned that most tasks are accomplished and most meetings go just fine without the office.

Of course, companies won't suddenly abandon their offices, because going to the office has never been just about work. And technology won't make socializing less dependent on direct interpersonal contact anytime soon. But we do need to rethink the cube design that all too many offices exemplify.

Pre-pandemic, most businesses saw the office as a place where individuals could get work done. Post-pandemic, the office will only secondarily be a place to carry out tasks or engage in routine meetings, especially for knowledge workers. They will be able to do much of that from home, thanks to the growing functionality of information and communication technologies. As a result, employees will increasingly be working in what we call the hybrid office—moving between a home work space and a traditional office building. The latter will become primarily a *culture space,* providing workers with a social anchor, facilitating connections, enabling learning, and fostering unscripted, innovative collaboration.

In the following pages we explore the social functions of the office and describe how a number of forward-thinking companies are developing a new model—using intelligent, tech-enabled design to turn ergonomic workplaces into socially engaging culture spaces.

THE OFFICE AS SOCIAL ANCHOR

In the course of our researching the impact of remote working, one Paris-based senior marketing manager told us that before the March 2020 lockdown, he had a flexible schedule and enjoyed working from home two or three days a week. Thus he didn't mind much when his company announced that the office would stay closed at least until the end of

IDEA IN BRIEF

THE PROBLEM
Remote work is delivering some near-term productivity boosts and cost savings, but the longer-term impact may be very negative for company performance.

WHY THAT IS
Human beings require personal connection to build trust. Learning through observation requires physical proximity. And chance encounters between diverse individuals are a rich source of innovation.

THE SOLUTION
Tomorrow's offices will serve primarily as a place to renew social ties, build a learning culture, and offer opportunities for serendipity. They will be designed and managed to foster human connections with the help of technology.

Studies have long shown that frequent in-person interactions lead to commitment, support, and cooperation among people on teams.

December. Yet by early July, despite being in virtual meetings almost all day every day, he was lonely and pining to see his coworkers face-to-face. We have heard this theme again and again: At first, existing relationships seem to thrive when people work remotely. But over time problems emerge. Even self-identified introverts who relish a chance to work at home discover that it can be too much of a good thing.

Studies in cognitive psychology and neuroscience show that human cognition depends not only on how the brain processes signals, but also on the environment in which those signals are received. That's why the limited body language available in videoconferences can trigger misinterpretation and make bonding difficult. Being physically colocated helps people interpret others' moods and personalities, making it easier to build and cement relationships.

A short meetup at a colleague's desk can result in what the psychiatrist Edward Hallowell calls a *human moment:* a face-to-face encounter that allows for empathy, emotional connection, and nonverbal cues to complement what is actually said. When communication takes place remotely, the connection is severely weakened and nonverbal signals are harder to pick up on, even when people can see each other on a screen. In human moments people are often energized and more likely to empathize with each other, which supports organizational culture and collaboration. Neuroscientific research suggests that the brain chemistry of people in human moments is distinct from that in purely transactional encounters.

Many remote encounters are purely task-focused and largely free of emotional connection. Microsoft recently surveyed its employees about how they were dealing with the Covid-related remote-work environment. One of the effects most often cited was an increase in the number of (shorter) meetings needed to solve a problem, because, as a survey respondent put it, people could no longer "just pop by to someone else's office to ask a question." Another said, "I can't wander over to someone's desk or connect over coffee in the kitchen. As a result, I think I spend a lot more time in meetings."

Meetings are important, of course, but not more so than human moments, because it is relationships, not merely acts of collaboration, that create trust between coworkers. Studies have long shown that frequent in-person interactions lead to commitment, support, and cooperation among people on teams. That's why many tech companies that boast about being 100% online still have an office. Even those that have no physical space emphasize that teams should meet face-to-face on a regular basis: "We get the whole company together once a year for seven days so that Automatticians can create bonds that influence them all year long," says the website of Automattic, the company that owns WordPress and Tumblr.

Research into distributed open-source software development communities shows that members consider regular real-life meetings helpful for nurturing relationships. The WELL (Whole Earth 'Lectronic Link), which started in 1985, is one of the oldest virtual communities in existence. The WELL attributes its survival to fostering deep relationships through in-person contact: Its members have practically grown up together—they've attended one another's weddings and funerals and supported one another through child-rearing years and illnesses.

THE OFFICE AS SCHOOLHOUSE

When organizations move to remote working, they need to consider the impact on how knowledge is shared. Much of it can be codified, efficiently scaled, and distributed by knowledge-management systems to all employees, whether they're working on-site or remotely. But the really critical knowledge in most organizations cannot be made explicit. Ask new employees at almost any company and they will say that they learned as much from observing their colleagues and managers and interacting with various stakeholders as they did from going through new-employee orientation and specialized trainings—if not more. Classically, this on-the-job learning takes place through apprenticeship. New employees learn the correct and proper way to behave—"how things are done around here"—from directly observing those around them, especially their mentors.

Technology can certainly be used to facilitate this sort of learning, but without question an office makes the process a lot easier. In September 2020 Jamie Dimon, the CEO of JPMorgan Chase, said in a session with equity research analysts that after six months of working from home, junior employees were losing out on the informal, intangible benefits of sitting together in the office and no longer profited

ABOUT THE ART

Felrath Hines (1913–1993) was a visual artist known for his abstract sensibility. A founding member of Spiral, an African American artist collective that emerged in the early 1960s in response to the civil rights movement, he served as chief conservator of the National Portrait Gallery and the Hirshhorn Museum and Sculpture Garden, in Washington, DC.

Felrath Hines, *Skylight*, 1991, oil on canvas, 48" x 36". From the David C. Driskell Permanent Collection at the University of Maryland, College Park. Gift of Charlotte Mason, 2008.10.001. Image courtesy of the David C. Driskell Center at the University of Maryland, College Park. ©Dorothy C. Fisher, 2016. Photography by Greg Staley, 2018

from the spontaneous learning and creativity that comes from human-to-human contact. Although JPMorgan Chase, like other banks and law firms, relies on virtual training to teach core skills, those trainings don't provide real-life, desk-side insight into how, for instance, a portfolio manager might choose between two technically similar stocks.

The need to sometimes be in an office was strongly expressed by a young IT professional we met in London during the course of our research. He described his mid-2020 virtual onboarding experience in a global financial-services company as "surreal." Because its offices were closed, he had not been able to visit them or meet a single member of his new team in person. The onboarding was done over Zoom, and the team had regular virtual check-ins and meetings.

He was impressed by the effort his new company made to create the best possible experience, but, he told us, "The truth is, I still do not know the system, the environment, and there is nothing my company can do. Things that would have required me to simply turn around in my chair and ask my colleague at the neighboring desk in 10 seconds now take me several emails back and forth to understand." And questions sent by email have more weight than questions asked of someone face-to-face, so he hesitated to send messages to colleagues he had never met. "I am always wondering whether or not to ask the 'silly' question," he said. He worried that it would take him more time to learn the ropes needed to do his job efficiently in the long term. He also wondered what the norms were for interactions and ways of working. He tried to pick them up through emails, calls, and Zoom meetings, but he found it harder to understand the company culture than he had in his previous job.

THE OFFICE AS A HUB FOR UNSTRUCTURED COLLABORATION

When people from different functions and departments collaborate, they can solve complex problems and generate innovative new ideas. Such collaboration is usually triggered by chance encounters—in conversations around a coffee machine or a copier—in which people identify others they can get help from or work with. ("Have you talked to Sofia? She worked with a similar client last year. She might be able to share what it did or point you to a reference.") Research confirms this: The Human Dynamics group in the MIT Media Lab collected data from employees' electronic badges and found that frequent face-to-face interactions outside formal meetings were the best predictor of productivity.

Although you can't plan for impromptu conversations, you can make them more likely to happen. One manager we interviewed described setting up a big board to post all the insights her team collected for one project. She positioned the board in a central area that people often passed through and held team meetings around it; passersby would listen and sometimes join in. Her desk was nearby, so when people stopped at the board, she would go over and chat with them about it, explaining the project and getting their feedback. The insights she gleaned from these chance encounters were added to the board.

That kind of unstructured collaboration requires close in-person contact, which isn't possible when everyone is working from home. It can be difficult to achieve even when

People need be only 50 meters apart for regular communication (whether face-to-face or in any media) to decrease.

people are in the same building, because communication of all kinds suffers if colleagues are located far from one another in the same office. Tom Allen, an MIT organizational psychologist, demonstrated in the 1970s that people need be only 50 meters apart for regular communication (whether face-to-face or in any media) to decrease.

Organizations that reduced workplace density in the interests of social distancing have learned the truth of that. One European home-appliance group divided employees at headquarters into two cohorts. One came in on Mondays and Tuesdays and the other on Thursdays and Fridays, with no rotation. After four months a number of projects had slipped off schedule because many of the people collaborating on them came in on different days and never met in person.

Precisely because they recognized the importance of providing regular touchpoints, some early adopters of remote work, such as IBM and Yahoo, decided a few years ago to partially reverse their very liberal telecommuting policies. And when Microsoft changed its policy in 2020 to let more employees work from home, it also provided in-office touchdown spaces for them—a practice sometimes referred to as *hoteling*.

CREATING THE OFFICE OF TOMORROW

Widely available technology is not only facilitating remote work but also progressively automating much of the routine work that traditionally defined people's jobs. Together these two developments are fundamentally redefining the meaning of work and the role of an employee in the organization. Increasingly, what companies need from people is their creativity—and as we've seen, people are more creative when they're together and can share human moments. That's why we need the office. But tomorrow's offices will have to be very different from what we're used to, and three features will define them. They will be:

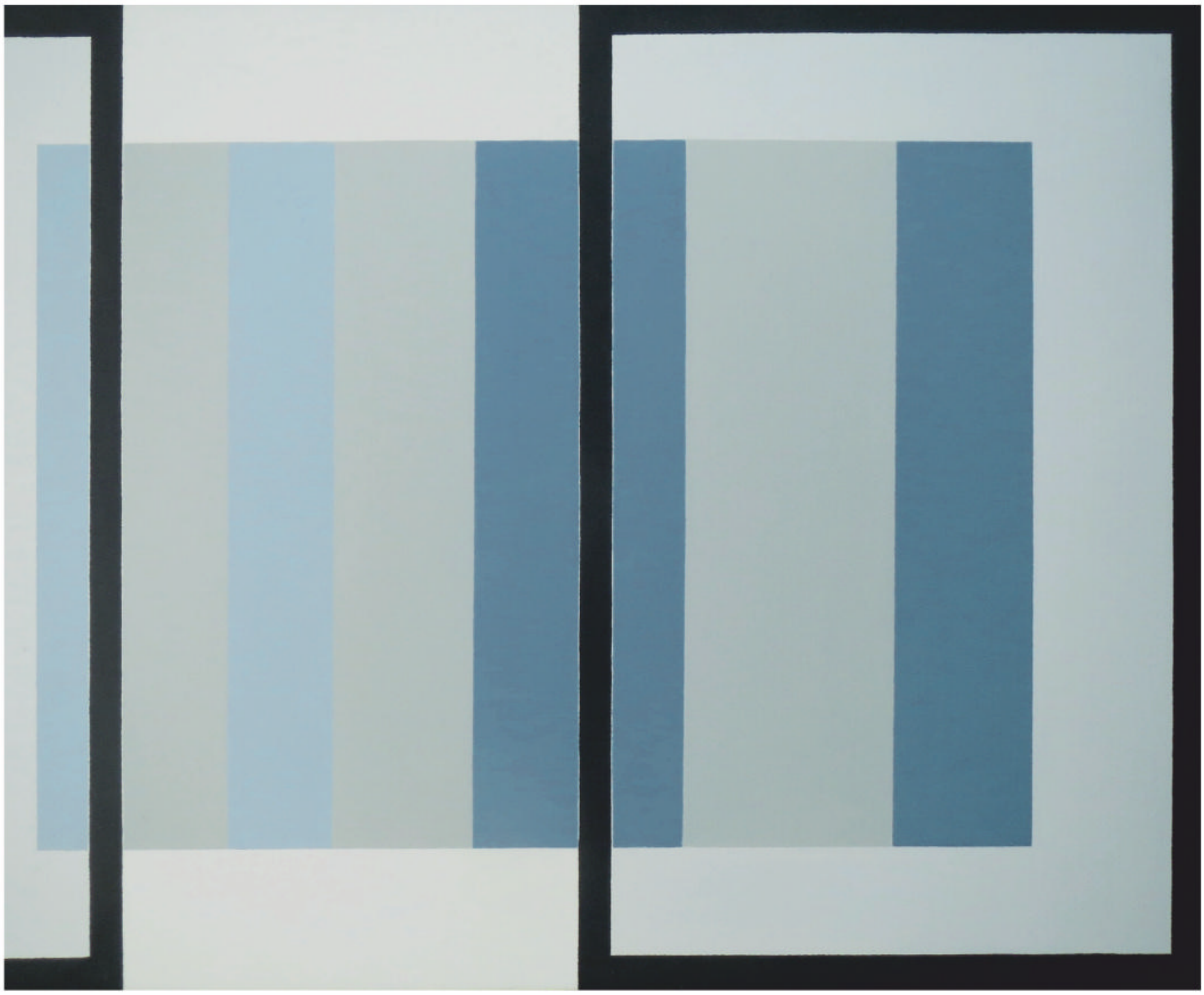
Designed for human moments. Low-cost open-plan designs and cramped seating—which researchers have consistently found to be detrimental to morale, collaboration, and productivity—are ubiquitous, but some companies have moved beyond that model. Their new approach strikes a balance between openness and privacy, incorporating design elements that enable social interactions of many types—from a quick chat at the corner of an open stairway to low-voiced gossip by the kitchen counter or the coffee machine. Among these elements might be an alcove where a few people can polish a presentation or a high table where two people can stand for an impromptu meeting and be joined by a junior employee who passes by, overhears them, and stops to ask a question.

The IOC's Olympic House, built for the purpose of humanizing work, has many such features. In the century following its founding, the IOC had grown to occupy four locations across Lausanne. By 2012 its leaders had noticed that this fragmentation was damaging relationships among its 400-plus employees. Although the nature of the work meant that people traveled extensively and often worked remotely, IOC's leadership believed that a single home base was essential to creating a sense of community that would foster the well-being of employees and stakeholders and, above all, provide human moments for building trust and stimulating creativity.

Within just a few months Olympic House became, as one IOC manager put it, a "happy place to come to every day, where we feed off each other's energy." Its design fosters formal and informal encounters, profoundly changing how teams interact. For example, its great central staircase—shaped like the five rings of the Olympic symbol—forces people from different departments to encounter one another on the way to and from their desks and encourages them to stop and talk. "Those spaces around the staircase" one IOC manager explained, "are full of sofas and coffee corners where you would like to spend five or 10 minutes speaking with your colleagues about open points that you need to tackle, rather than sending a lot of emails. And this human element is at the heart of what we do."

The designers also paid particular attention to acoustics. In the areas with desks—allocated according to a hoteling scheme—sounds are muted by carpets and sound-absorbent material on the ceiling and in the furniture. Near the central staircase and in other areas intended for socializing, the architects deliberately used less sound-absorbent material to create a "coffee shop buzz" and draw people in to chat and socialize.

Details like these matter. A global tech company we know decided to cut costs by eliminating the coffee machine in one of its R&D centers. Initially productivity went up: Managers measured an increase in the number of lines of code



Felrath Hines, *Opening II*, 1987, oil on linen, 36" x 28"

produced and a decrease in the number of bugs. People were spending less time talking over coffee and more time coding. But later the total number of product releases went down, owing to an increase in integration bugs. That coffee talk turned out to have produced valuable collaboration.

Customized by technology. Technology has helped us take home the work we can do more efficiently on our own. It can also help us better understand how we operate socially, and that understanding can lead to more-effective design and use of social spaces.

Silverstein Properties, a real estate development and management firm in New York City, provides a case in point. The company has created an AI-based platform called Dojo, which tracks the movement of people to feed a data-driven scoring system that generates office layouts and seating charts to maximize the likelihood of serendipitous informal interactions.

Dojo enables users to create collaboration profiles for individuals, teams, and the organization as a whole. (Some industries and functions require a greater proportion of independent work than others do.) This allows companies to cluster employees by work style, using metrics such as the percentage of time spent in meetings, the average amount of free time between meetings, and the distribution of meetings during the day. The result is a kind of nonhierarchical org chart that can help managers find ways to use the company's physical spaces and technology to create more opportunities for employees to connect.

One of Silverstein's tenants, a tech company with more than 400 employees, used insights from Dojo in redesigning

its office. The platform showed that if the tenant redistributed its people according to cross-departmental "neighborhoods," it could improve collaboration and reduce its real estate footprint. The tech company also found that no one was using the small rooms, meant to provide privacy, that were situated far from where most people sat. Instead employees made their private calls in the elevator lobby. So it did away with the small rooms and installed phone booths in the lobby. After making those changes, it had 20% more space than it needed, which it was able to sublet.

Technology can also support relationships between people working remotely and people in the office. In the mid-1980s researchers at Xerox PARC created a media space combining video, audio, and computing technologies to support social interactions between their labs in Palo Alto and Portland, Oregon. This allowed people in the labs' lounge areas and in some individual offices to connect virtually. Similar experiments at Xerox's EuroPARC in the UK, at Bellcore, and at the University of Toronto show that even a peripheral awareness of one another can help people working remotely feel closer to those on-site and vice versa.

Of course, technology should go only so far. As long as employees can see who is present physically and who is available virtually—which technology like Dojo can facilitate—they should be free to create their own encounters and moments of collaborative thinking.

Managed to encourage connections. For their part, managers need to ensure that when people come to the office, they feel they have permission to socialize and connect with their colleagues. In addition to explicitly stating this, leaders should reinforce it by spending time themselves in the common areas and participating in social events.

The global design consultancy frog provides a good example of what this involves. Frog has offices, or "studios," around the world, which the company uses to cement social ties and teach newcomers about the company culture. Rituals that foster informal learning abound, from Monday Morning Meetings (where recurring themes across projects and industries are discussed or new content is shared in a presentation) to Wellness Wednesdays (during which, for example, a yoga class might be taught) to coffee time every afternoon and happy hours for team members and occasionally for clients.

These rituals all offer opportunities for junior and more-senior employees to mingle, share stories about projects and life, and informally ask for advice. Work happens as much in the lounge and the kitchen as in the rooms where project teams brainstorm with whiteboards and Post-it notes. Seeing or overhearing these work sessions, formal and informal, is critical to learning the subtleties of good design and managing client relationships.

When the world went into lockdown, frog discovered some positive aspects to working from home. Collaboration across the global studio network improved, for example. Without the constraints of face-to-face work, frog could increase cross-pollination among its studios worldwide and better utilize people's talents. It was also able to keep some of the rituals alive, with a few tweaks. At a virtual daily coffee time, for example, someone might post a question such as "What's the craziest way you've been injured?" to get people out of work mode. Given these benefits and the cost savings from shutting down a studio in an expensive market

Felrath Hines, *Windsound*, 1991, oil on linen. Collection of the Muskegon Museum of Art. Gift of the Felrath Hines Estate in honor of the 100th anniversary of the Muskegon Museum of Art

Once back in the office, people may feel obligated to be in meetings or on their computers all the time. If so, the positive lessons from the pandemic will have been lost.

like New York, frog's leaders wondered if the company could continue with working from home, since the transition had been smooth. But they realized that the studio plays a central role in the company culture for informal learning and socialization—and although New York rents are high, the space cost is a relatively small part of frog's overall expenses. Even if working at the studio needs reinventing, it will remain a core part of being an employee.

As we all go back to the office, it will be essential to avoid conflating face time and actual output when assessing performance—so that people don't feel they need to show up to convince the boss that they're working hard. And when in the office, they shouldn't feel obligated to be in meetings or on their computers all the time. If coming back in means only individual work and task-focused meetings, the positive lessons from the pandemic will have been lost, and the organization's performance and culture may be jeopardized.

To avoid that, Adam D'Angelo, the chief executive of the question-and-answer website Quora, announced that the company would not adopt a selective remote approach—whereby leaders or certain groups go to the office while regular employees work from home. Instead everyone—from the CEO down—would work from home, but everyone would be required to spend time in the office as well. The intention, as he explained on the company blog, was to "prevent the office from becoming the 'real' headquarters." It sent a clear signal to Quora employees that going to the office was not a way to impress your boss; in the eyes of management, working from home was and would continue to be just as legitimate.

When in the office, leaders need to model the kind of social behaviors that people ought to engage in. They should not spend all their time in meetings; rather, they should follow the lead of Paul Bennett, IDEO's chief creative officer, who says he sits "permanently and resolutely with our IT team at its help desk, which is the most visible and central spot in our San Francisco office." He adds, "I think of the help desk as an overlap between a coffee bar and a hacked-together technological lifeguard station. The people there are full of energy and fun. Sitting high up on a stool with them has encouraged people to approach me spontaneously. This lets conversations and interactions happen naturally over the course of the workday."

Opportunities for non-work-related rituals (such as meditation, yoga, and the plank challenge) are also a great way to nurture relationships and signal that the office is about connecting. Of course, in-person meetings should not be banned, but they need to be limited so that a day in the office does not become a day in meetings—and they should involve activities that might be difficult to do remotely (such as brainstorming while standing up or moving around a table).

By the same token, companies must ensure that their employees aren't "always on" if they are to engender engagement and creativity. Taking breaks is not always easy, especially if employees are being monitored with surveillance software or managed by bosses who focus on screen time rather than productive output. Make it clear that it's fine to take a lunch break or to reschedule an 8:00 AM meeting to accommodate someone's regular morning run or swim or yoga practice. Here again, role-modeling matters. It can be as simple as setting your status on Slack or another tool to say "I'm out for lunch" or "I'm online all week except Thursdays." Recognize that sometimes people need a long weekend or a holiday. The software services provider Basecamp gives each employee a 30-day sabbatical every three years.

AS MANY ORGANIZATIONS allow people to work remotely at least some of the time, it's worth remembering that distributed collaboration has a long history. What that history and our contemporary experience show is that supportive infrastructure, technologies, and organizational processes are necessary but not sufficient for productive collaboration. People still need in-person touchpoints that provide opportunities to clarify and align expectations, to refresh rules and work practices, and to build or revive trust. In a world that enables and leverages work from home at scale, it is all the more important to bring people back together in offices to deliver on those human needs.

HBR Reprint R2102J

ANNE-LAURE FAYARD *is an associate professor at New York University.* **JOHN WEEKS** *is a professor at IMD in Lausanne, Switzerland.* **MAHWESH KHAN**, *a former corporate governance officer at the International Finance Corporation, is a research associate at IMD.*

PHOTOGRAPHER SPENCER LOWELL

"It will need to be the *most amazing* thing humankind has *ever done*."

A conversation with Microsoft cofounder and philanthropist **Bill Gates**

SUSTAINABILITY

A conversation with *Bill Gates*

The Columbia Glacier in southeastern Alaska is one of the most rapidly receding ice floes in the world.

Having built up a net worth of well over $100 billion, Bill Gates has committed his energy and dollars to trying to solve some of the most vexing problems of our time: HIV/AIDs, tuberculosis and malaria, Covid-19. He is also focused on climate change and has just published a new book, *How to Avoid a Climate Disaster*. In it he argues persuasively that the world needs to get to zero carbon emissions by 2050. He wants readers to know that achieving that goal won't be easy but it can be done, particularly if we find ways to spur green innovation. Gates recently spoke with HBR's editor in chief, **Adi Ignatius**, from his office in Seattle. Here's an edited version of the conversation.

HBR: **There are already a lot of books about the urgency of the climate challenge. Why are you taking on the topic now?**
GATES: Millennials have made sure that even in the face of the Covid-19 pandemic, we're paying attention to climate change. In the recent U.S. election, many candidates made the issue a priority. So we have a commitment. But do we really have a plan to get to zero carbon emissions? I want to contribute my thinking to show what's required to develop the breakthroughs we need to get there.

The book seems to pit the dire threat of climate change against your own propensity for optimism. What's the main idea that you'd like readers to take away? It's that getting to zero carbon emissions is harder than people might assume. The world releases about 51 billion tons of carbon a year. When people think about reducing that, they tend to focus on the easy things: using renewable sources for electricity generation, or electrifying passenger cars. But we need to make progress in other big areas, like low-emissions concrete and cement. And we need to make sure that government policies, corporate behavior, and personal consumption habits are all contributing to the solutions.

To what extent are we now on the path to get to zero by 2050? If you ignore the temporary reduction effects of the pandemic and the economic crisis, we're not at all on track. Emissions keep going up. To get to zero by 2050, we'll need dramatic declines across every category, year in and year out.

You write that even if we can cut carbon emissions in half, that would only postpone—not prevent—a climate catastrophe. Is there any precedent for a transition of this magnitude? This scale of change hasn't happened before. It will need to be the most amazing thing humankind has ever done. Making a vaccine for the coronavirus went quickly, but that was far easier. It was built on top of investments that the Gates Foundation and other organizations made over the past decade in the mRNA approach. For climate, it's important that we not spend money on just reducing, say, electricity use by 15%. We need to invest in the innovations that will really make a difference.

If we can't get to zero, what happens? Well, the temperature will keep going up. Natural ecosystems like coral reefs and the Arctic will disappear. If you own farmland in Canada, you're actually going to get more crops because it will be warmer. But if you own farmland in Texas or Mexico, things will be bad. Crops like corn simply aren't going to grow there anymore. And for subsistence farmers near the equator—in parts of Africa, for example—it will be disastrous. They won't have enough food to survive.

You write that by the middle of the century, climate change could cause five times as many deaths as Covid-19, with a far more devastating economic effect. Covid has been a real-time disaster. Yet even though the deaths and devastation have been in our face, you could say we failed in our response. So how are we going to respond to the more abstract, slow-moving effects of climate change? In the case of the pandemic, if the United States had taken the measures that I and others suggested when we warned about the danger, we would have ended up like Australia

Image by Overview; source imagery from the European Space Agency

or Japan, with a very modest number of deaths. Responding to climate change is harder because the amount of innovation needed is much greater and, as you say, the negative effects are way out there in the future. With the pandemic, it was uncertain which year it would come. I could have gone my whole life without seeing one. With climate change we can guarantee the ill effects. There are still questions: For example, will it be four degrees hotter or five? But disaster is guaranteed unless we reduce emissions very, very dramatically.

There's also the problem of climate-change denial. I spoke to a gathering of investors recently and invited them to submit questions, which went up on a screen so that the crowd could vote for the one they cared most about. The most popular question was "Is climate change real?" These are successful, well-educated people, with access to all the knowledge that you have access to, and yet they're not buying climate change. What's going on here? Fortunately, denial is declining. You no longer have companies that, in a self-interested way, are trying to amplify the uncertainty. But we have two problems. First, there are still deniers, and we have to bring them along—in part by minimizing the cost of what we do to avoid climate change. Second, we have to show the believers just how difficult the challenge really is. It's not just about stubborn oil and utility executives. And we can't make meaningful progress simply by divesting stock here and there and maybe using a little less of this or that.

Who is the main audience for your book? People who believe that climate change is genuine but don't understand what it will take to really make a difference? Yes, it's for people who think this will be easy. Or who think we just need to identify the boogeyman behind the problem. What we really need is a lot of science. We need to increase R&D budgets, to draw on the talent we have in universities and labs. And we need to reenergize financing for all of this. The venture capital community so far has had a bad experience with green investing. We need to tap high-risk capital that's structured for the super-long-term nature of the products we need.

Climate denial may be decreasing, but the efforts you're talking about will require a consensus that doesn't exist at present. As you know well, there's a strong anti-science, anti-expert strain in society that has to be factored in. I think more people will come around as they see the forest fires and the hurricanes that result in part from climate change. I think younger people already are more open-minded about the long-term investments we need because they're thinking about what type of world they'll live in. But we also need to avoid saying that this effort will take money away from other important things the government funds.

You coined the term "green premium" to identify the extra amount that we need to pay for zero-carbon substitutes for existing products. If the green premium is low, we should be adopting the substitute. If it's high, that's where we need to direct R&D and investment. The key metric as we try to get to zero emissions is how much we're bringing these premiums down to an acceptable level. If we track the innovations that are bringing them down, that will give us a sense as to whether or not we're going to get to zero. If it's not happening, we'll need to increase R&D budgets even more to create new products. And once the markets for those products get to a certain scale, that will help drive things to the next level.

What about the political element? In the U.S. you have one president who issues orders to protect the environment followed by another who issues orders undoing the protections. If you don't have unity of purpose, how will we get there? The more you look at politics, the more you see that the brute-force approach of just continuing to pay these green premiums is not tenable. Innovation is the only way to square this. Yes, we need good policies. We need a larger R&D budget. And we need a carbon tax and other measures to reduce energy demand. There were big tax benefits for investing in solar panels—a policy that survived Democratic and Republican administrations. Those incentives helped lower the learning curve to the point where the need for the subsidy is almost gone. That money can now be put into the next areas, like battery storage, aviation fuel, steel, and cement. Policy will be important, but the trillions of dollars of investment that candidates proposed before the U.S. election in 2020 aren't likely to emerge. It's too big a sacrifice to spend that kind of money. We need a plan that costs tens of billions, not trillions, and fosters innovation.

So ultimately it's all about innovation? Without innovation, I don't think we can avoid climate disaster. If you tell me that science is frozen and you just have to politically decide to make the right trade-offs, it won't work. You can't get India, for example, to stop its emissions when other countries aren't going along. We can't solve this without innovation. Spending tens of billions on innovation is a modest enough percentage of the budget that I believe we can get a bipartisan consensus on advancing this work no matter which party is in power.

How do you increase the supply of innovation? We have some models. In the medical realm, the U.S. spends about $40 billion a year on the National Institutes of Health. That's led to huge advances in cancer treatment and other areas, and a lot of U.S.-based companies make the products that have come out of the research. I think there's now some chance of bipartisan support in Congress for more climate-related research. The next piece is to get risk capital to come in. I helped create Breakthrough Energy Ventures, an investor-led fund that's looking to universities and national labs to find out what projects are ready for development. It's longer term and more patient than typical venture stuff, which will help accelerate the journey from the lab to the market.

You've talked over the years about how nuclear energy is critical to creating a noncarbon future. Your book makes that argument somewhat sparingly. Is that because you doubt the will, particularly in the U.S., to seriously pursue nuclear power? Electricity generation is hard because of the intermittent nature of clean sources like wind and solar. One way to deal with that would be to achieve a miracle of storage, with batteries that are 20 times better than what we have today. Unfortunately, there's a good chance we just can't achieve that. Alternatively, we can rely on nuclear fusion, though that has a huge societal acceptance problem in terms of safety, and the reactors that have been built have been way overpriced and not economical. But the energy's got to come from somewhere. And yes, I didn't want the book to come across as a promotion of TerraPower *[a nuclear-reactor design company that Gates cofounded and chairs].* Of course, any money I make from that will go to the Gates Foundation; it's not like I'm short on money. In the book I wanted to be neutral about the different paths to cleaner energy.

Is there a point of no return for climate change? There isn't a moment when all of a sudden the world catches on fire and is gone. It's just a matter of how many people will die and how many ecosystems will disappear. At some point the Amazon will dry up and become a savannah. Eventually, you're not going to have Arctic ice or polar bears or coral reefs. You're not going to be growing crops. People who talk about climate change often say there's some magic breaking point, but we don't know that. We just know that if you ignore climate change, these environmental and human tragedies eventually will happen. One sad fact is that there are lags in this system such that even once you get emissions to zero, temperatures won't get cooler for about two decades. So I'm not likely to be alive in a year that's cooler than the previous one.

How do you ensure that this is a truly global effort? The hard part is that even if rich-country governments go along, we need to make it attractive for less-wealthy countries to do so as well. People in developing countries deserve to have more shelter and more electricity and the ability to move around. Places like India still need more of those emission-intensive services to create a decent lifestyle for their populations. So it's up to the rich countries—particularly the U.S., which has so much innovation power—to invest and come up with approaches to get us to zero.

What is it that individual companies can do to move the needle? Employers have a lot of purchasing power. They can buy clean aviation fuel for their private air fleets. They can invest capital in high-risk, breakthrough companies. And they can make sure that they're not holding back progress.

What about big institutional investors? If they pull out of carbon, won't that help? Not at all. Moving capital out of fossil fuels may be a good thing to talk about at the cocktail parties you go to. But are people going to stop using cement because some Wall Street guy is divesting? What's the theory there? There's no connection. Now if the big firms invest rather than divest—if they fund high-risk innovations related to the green premiums—then they're part of the gain.

And what do you hope to see from government? In democracies we need citizens to care about and promote green ideas so politicians feel they have a mandate to work in these areas. Without government creating demand for new products—by allowing steel to be certified in a new way that uses less carbon, for example—we're not going to get to zero emissions in 30 years.

What is it that individuals can do to make a difference? They can buy clean products like the Impossible Burger or electric cars. They can try to use fewer materials. They can change their consumption so that clean products can achieve scale and their costs go down. And they can use their voices to elect politicians who are willing to create the policies and fund the R&D that we need. If I had one wish for the U.S., it would be that spending the tens of billions needed for innovation would be a priority across party lines. We need people to speak out for this.

HBR Reprint R2102K

HBRLive

A HARVARD BUSINESS REVIEW EVENT

Leaders Who Make a Difference

Driving Purpose and Profit in an Uncertain World

Ajay Banga,
Executive Chairman and
Former CEO, Mastercard

Albert Bourla,
Chairman and CEO,
Pfizer

Marvin Ellison,
President and CEO,
Lowe's

Anne Wojcicki,
Co-founder and CEO,
23andMe

HBRLive

Leaders Who Make a Difference

April 8, 2021

See the full program
and register today at:

hbr.org/hbrlive

We are at a critical juncture as the world reckons with an ongoing pandemic, racial injustice, environmental risks, and other issues that affect all businesses. More than ever before, CEOs and other leaders must tackle these big challenges while also delivering bottom-line growth. Join us for a groundbreaking virtual conference that convenes powerful global CEOs and changemakers who have made corporate social responsibility a priority—and succeeded at transforming their companies and, in some cases, their industries. Our daylong program of provocative interviews, interactive breakouts, and expert-led masterclasses will inspire you—and equip you with proven strategies to drive positive change in your own organization.

HOSTED BY

Adi Ignatius
Editor in Chief,
Harvard Business Review

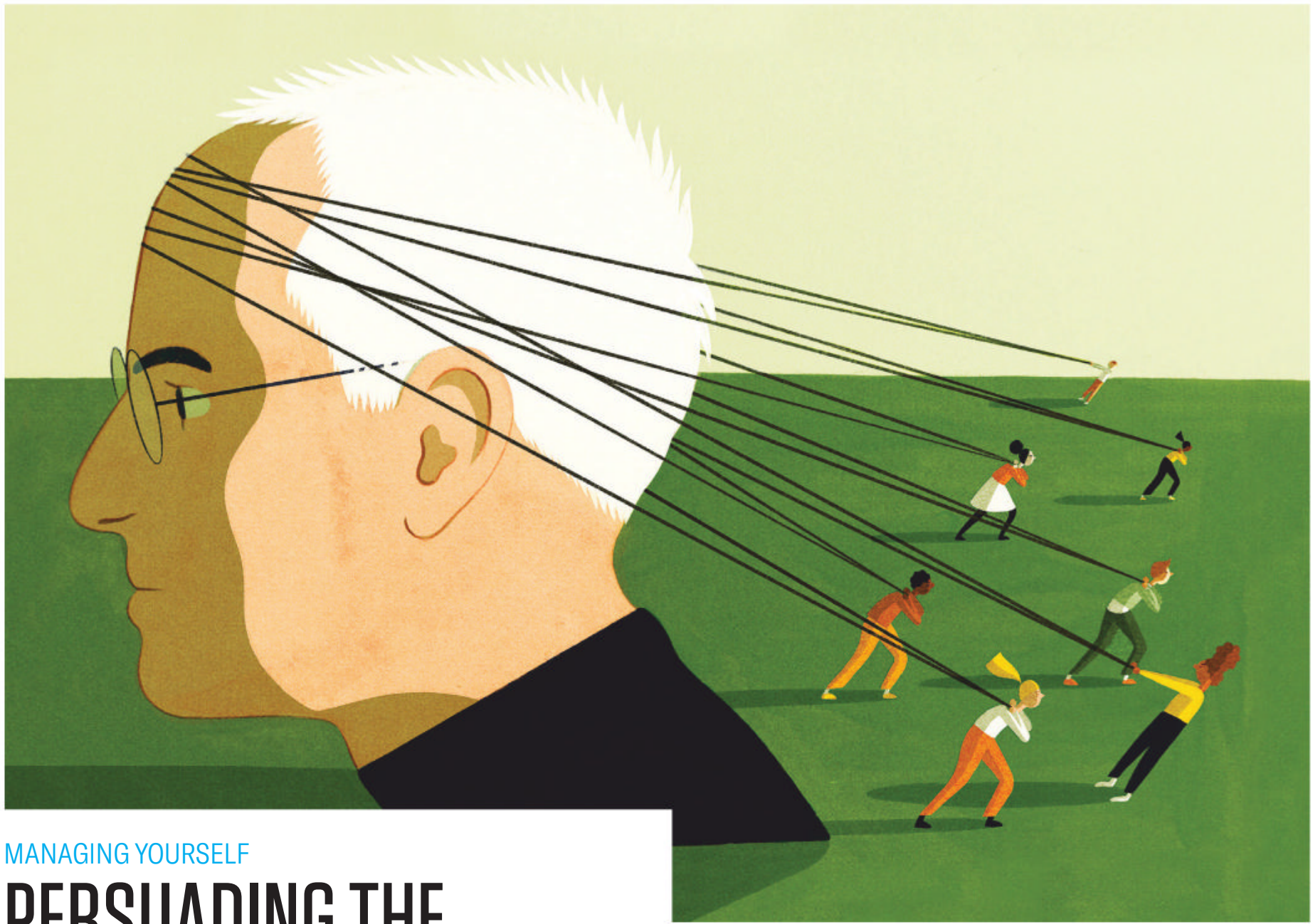
Amy Bernstein
Editor, *Harvard Business Review*
and co-host of *Women at Work*

Alison Beard
Senior Editor, *Harvard Business Review* and co-host of
HBR IdeaCast and *Dear HBR*

Harvard Business Review

Experience

Advice and Inspiration



MANAGING YOURSELF

PERSUADING THE UNPERSUADABLE

Lessons from science—and the people who were able to sway Steve Jobs

by Adam Grant

THE LEGEND OF Steve Jobs is that he transformed our lives with the strength of his convictions. The key to his greatness, the story goes, was his ability to bend the world to his vision. The reality is that much of Apple's success came from his team's pushing him to rethink his positions. If Jobs hadn't surrounded himself with people who knew how to change his mind, he might not have changed the world.

For years Jobs insisted he would never make a phone. After his team finally persuaded him to reconsider, he banned outside apps; it took another year to get him to reverse that stance. Within nine months the App Store had

Illustrations by **ELENI KALORKOTI**

a billion downloads, and a decade later the iPhone had generated more than $1 trillion in revenue.

Almost every leader has studied the genius of Jobs, but surprisingly few have studied the genius of those who managed to influence him. As an organizational psychologist, I've spent time with a number of people who succeeded in motivating him to think again, and I've analyzed the science behind their techniques. The bad news is that plenty of leaders are so sure of themselves that they reject worthy opinions and ideas from others and refuse to abandon their own bad ones. The good news is that it is possible to get even the most overconfident, stubborn, narcissistic, and disagreeable people to open their minds.

A growing body of evidence shows that personality traits aren't necessarily consistent from one situation to the next. Think of the dominant manager who is occasionally submissive, the hypercompetitive colleague who sporadically becomes cooperative, or the chronic procrastinator who finishes some projects early. Every leader has an *if...then* profile: a pattern of responding to particular scenarios in certain ways. If the dominant manager is interacting with a superior...then she becomes submissive. If the competitive colleague is dealing with an important client...then he shifts into cooperative mode. If the procrastinator has a crucial deadline coming up...then she gets her act together.

Computer code is a string of if...then commands. Humans are a lot messier, but we too have predictable if...then responses. Even the most rigid people flex at times, and even the most open-minded have moments when they shut down. So if you want to reason with people who seem unreasonable, pay attention to instances when they—or others like them—change their minds. Here are some approaches that can help you encourage a know-it-all to recognize when there's something to be learned, a stubborn colleague to make a U-turn, a narcissist to show humility, and a disagreeable boss to agree with you.

ASK A KNOW-IT-ALL TO EXPLAIN HOW THINGS WORK

The first barrier to changing someone's view is arrogance. We've all encountered leaders who are overconfident: They don't know what they don't know. If you call out their ignorance directly, they may get defensive. A better approach is to let them recognize the gaps in their own understanding.

In a series of experiments, psychologists asked Yale students to rate their knowledge of how everyday objects, such as televisions and toilets, work. The students were supremely confident in their knowledge—until they were asked to write out their explanations step-by-step. As they struggled to articulate how a TV transmits a picture and a toilet flushes, their overconfidence melted away. They suddenly realized how little they understood.

Trying to explain something complex can be a humbling experience—even for someone like Steve Jobs.

A few years ago I met Wendell Weeks, the CEO of Corning, which makes the glass for the iPhone. That relationship began when Jobs reached out to him, frustrated that the plastic face of the iPhone prototype kept getting scratched. Jobs wanted strong

A growing body of evidence shows that personality traits aren't necessarily consistent from one situation to the next.

glass to cover the display, but his team at Apple had sampled some of Corning's glass and found it too fragile. Weeks explained that he could think of three ways to develop something better. "I don't know that I'd make the glass for you," he told Jobs, "but I'd be very happy to talk with any members of your team who are technical enough to talk this thing through." Jobs responded, "*I'm* technical enough!"

When Weeks flew out to Cupertino, Jobs tried to tell him how to make the glass. Instead of arguing, Weeks let him explain the way his preferred method would work. As Jobs started talking, it became clear to both of them that he didn't fully understand how to design glass that wouldn't shatter. That was the opening Weeks needed. He walked to a whiteboard and said, "Let me teach you some science, and then we can have a great conversation." Jobs agreed, and Weeks eventually sketched out the glass composition, complete with molecules and sodium and potassium ion exchanges. They ended up doing it Weeks's way. The day the iPhone launched, Weeks received a message from Jobs that's now framed in his office: "We couldn't have done it without you."

LET A STUBBORN PERSON SEIZE THE REINS

A second obstacle to changing people's opinions is stubbornness. Intractable people see consistency and certainty as virtues. Once made up, their minds seem to be set in stone. But their views become more pliable if you hand them a chisel.

In a classic experiment, psychologists surveyed students regarding their beliefs about control: Did they see their successes and failures as determined primarily by internal forces, such as effort and choice, or by external forces, such as luck and fate? Stubborn people tend to believe in internal control: They think outcomes can be subject to their will. Next the students evaluated a proposed change to their university's grading system. One third read a lightly persuasive argument that the new system had been widely accepted at other schools and appeared to be one of the best ever used. Another third read a more forceful argument: This was such a good procedure that they would have to rate it highly. The final third got no persuasive argument. All the students then rated the new proposal on a scale from 1 (very poor) to 10 (very good).

Their reactions depended on their beliefs about control. In people who favored external control, both the light and the forceful arguments generated enthusiasm about the new system. They were comfortable changing their minds in the face of outside influence. People who favored internal control were unmoved by the light argument and were moved in the other direction by the forceful argument. In other words, when someone tried hard to alter their thinking, they snapped back like a rubber band.

A solution to this problem comes from a study of Hollywood screenwriters. Those who pitched fully formed concepts to executives right out of the gate struggled to get their ideas accepted. Successful screenwriters, by contrast, understood that Hollywood executives like to shape stories. Those writers treated the pitch more like a game of catch, tossing an idea over to the suits, who would build on it and throw it back.

Not long ago I was introduced to a former Apple engineer named Mike Bell, who knew how to play catch with Steve Jobs. In the late 1990s Bell was listening to music on his Mac computer and getting annoyed at the thought of lugging the device with him from room to room. When he suggested building a separate box to stream audio, Jobs laughed at him. When Bell recommended streaming video, too, Jobs fired back, "Who the f--- would ever want to stream video?"

Bell told me that when evaluating other people's ideas, Jobs often pushed back to assert his control. But when Jobs was the one generating ideas, he was more open to considering alternatives. Bell learned to plant the seeds of a new concept, hoping that Jobs would warm to it and give it some sunlight.

Research shows that asking questions instead of giving answers can overcome people's defensiveness. You're not telling your boss what to think or do; you're giving her some control over the conversation and inviting her to share her thoughts. Questions like "What if?" and "Could we?" spark creativity by making people curious about what's possible.

One day Bell casually mentioned that since no one would have a Mac in every room, streaming on other devices was going to be a big deal. Then, instead of pressing his argument, he asked, "What if we built a box that would let you play content?" Jobs was still skeptical, but as he imagined the possibilities, he started to take some ownership of the idea and eventually gave Bell the green light. "I knew I'd succeeded when he

Because disagreeable people are energized by conflict, they don't always want you to bend to their will right away; they're eager to duke it out.

was arguing my point and proposing the project I'd pitched him," Bell recalls. "By the end he was telling people to get out of my way." That project helped pave the way for Apple TV.

FIND THE RIGHT WAY TO PRAISE A NARCISSIST

A third hurdle in the way of changing minds is narcissism. Narcissistic leaders believe they're superior and special, and they don't take kindly to being told they're wrong. But with careful framing, you can coax them toward acknowledging that they're flawed and fallible.

It's often said that bullies and narcissists have low self-esteem. But research paints a different picture: Narcissists actually have high but *unstable* self-esteem. They crave status and approval and become hostile when their fragile egos are threatened—when they're insulted, rejected, or shamed. By appealing to their desire to be admired, you can counteract their knee-jerk tendency to reject a difference of opinion as criticism. Indeed, studies in both the United States and China have shown that narcissistic leaders are capable of demonstrating humility: They can believe they're gifted while acknowledging their imperfections. To nudge them in that direction, affirm your respect for them.

In 1997, not long after returning to Apple as CEO, Jobs was discussing a new suite of technology at the company's global developer conference. During the audience Q&A, one man harshly criticized the software and Jobs himself. "It's sad and clear that on several counts you've discussed, you don't know what you're talking about," he said. (Ouch.)

You might assume that Jobs went on the attack, got defensive, or maybe even threw the man out of the room. Instead he showed humility: "One of the hardest things when you're trying to effect change is that people like this gentleman are right in some areas," he exclaimed, adding: "I readily admit there are many things in life that I don't have the faintest idea what I'm talking about. So I apologize for that....We'll find the mistakes; we'll fix them." The crowd erupted into applause.

How did the critic elicit such a calm reaction? He kicked his comments off with a compliment: "Mr. Jobs, you're a bright and influential man." As the audience laughed, Jobs replied, "Here it comes."

As this story shows, a dash of acclaim can be a powerful antidote to a narcissist's insecurity. Not all displays of respect are equally effective, though. It doesn't help to bury criticism between two compliments: The feedback sandwich doesn't taste as good as it looks. Beginnings and ends are more likely to stick in our memories than middles, and narcissists are especially likely to ignore the criticism altogether.

The key is to praise people in an area different from the one in which you hope to change their minds. If you're trying to get a narcissistic leader to rethink a bad choice, it's a mistake to say you admire her decision-making skills; you're better off commending her creativity. We all have multiple identities, and when we feel secure about one of our strengths, we become more open to accepting our shortcomings elsewhere. Psychologists find that narcissists are less aggressive—and less selfish—after being reminded that they're athletic or funny.

The audience member at the Apple developer conference seemed to have an intuitive appreciation of Jobs's narcissistic if...then profile. By commending his intelligence and importance, he made it comfortable for Jobs to acknowledge that he didn't know everything about software.

DISAGREE WITH THE DISAGREEABLE

A final impediment to persuasion is disagreeableness, a trait often expressed through argumentativeness. Disagreeable people are determined to crush the competition, and when you urge them to reevaluate their strategy, that's what you become. However, if you're willing to stand up to them rather than back down, you can sometimes gain the upper hand.

Because disagreeable people are energized by conflict, they don't always want you to bend to their will right away; they're eager to duke it out. When researchers studied how CEOs decided which executives to nominate for board seats at other companies, it turned out that candidates who had a habit of arguing before agreeing with their bosses were more likely to get the nod. It showed that they weren't yes-men or yes-women but were willing to fight for their ideas and change their own minds. In the 1980s at Apple, the leaders of the Mac team gave an award to one person a year who had the temerity to challenge Steve Jobs. Eventually Jobs promoted each winner to run a key division of the company.

In a recent study of ideas pitched by junior people on a health care team, the vast majority were initially rejected by

senior leaders. The 24% that made it to implementation did so because their proponents kept fighting for them by refining and repeating pitches, acknowledging and addressing weaknesses, offering proof of concept, and enlisting supporters.

When Apple's engineers brought up the idea of making a phone, Jobs compiled a list of reasons why it wouldn't work. One was that smartphones were for the "pocket-protector crowd." His engineers agreed but then challenged him: If Apple made a phone, how beautiful and elegant could it be? They also tapped the competitive energy he felt toward Microsoft. Wouldn't there be a Windows phone eventually? Jobs was intrigued but he still wasn't sold. Tony Fadell, the inventor of the iPod and a cocreator of the iPhone, told me that people "had to work as a group, not simply in one meeting but possibly over weeks, to get him to change his mind or to see things from another angle." In the case of the iPhone, this argument continued for many months. Fadell and his engineers chipped away at the resistance by building early prototypes in secret, showing Jobs demos, and refining their designs.

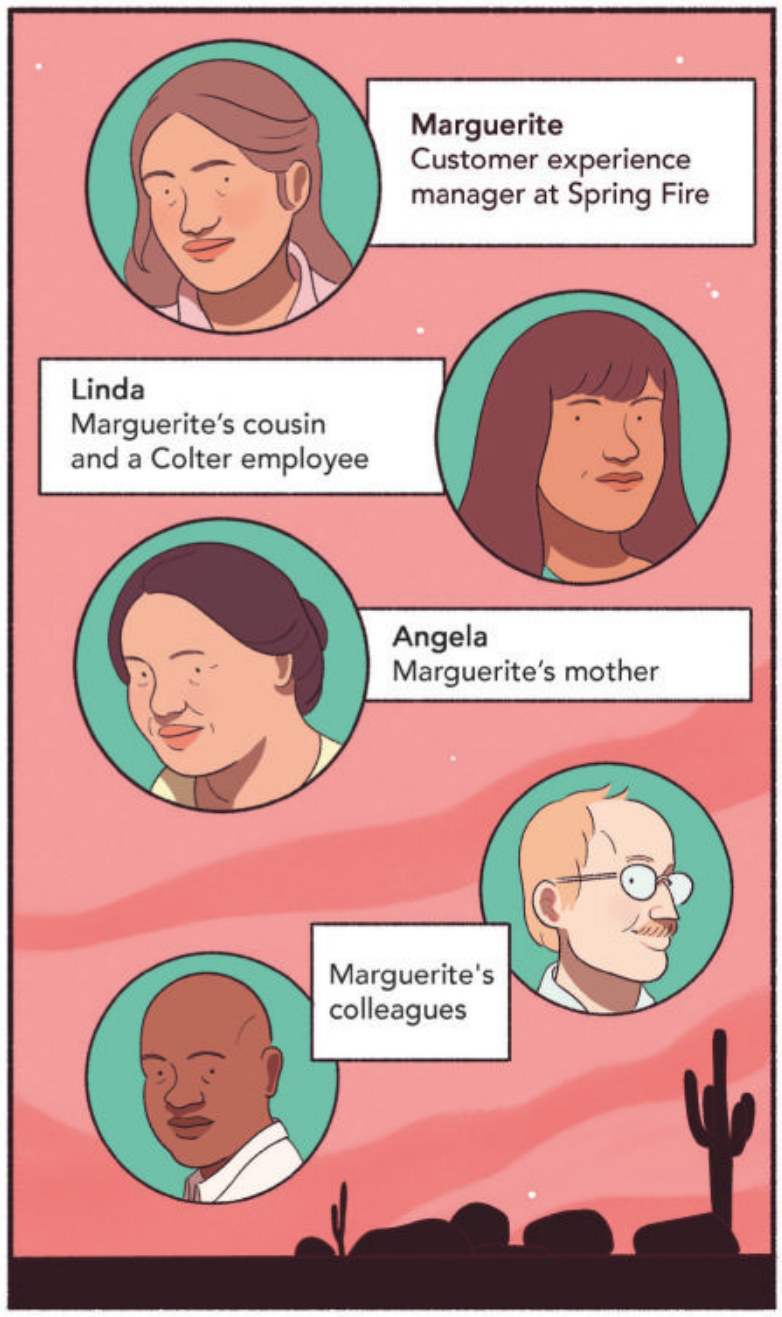
Eventually, one big objection remained: The cell phone carriers controlled the networks, and they would force Apple to make a subpar product. Again the team appealed to Jobs's disagreeable tendencies: Could he get the carriers to do it his way? "If we had a powerful enough device," Fadell said, "he could get them to sign up to all of these terms that would remove all of those obstacles." Jobs saw the potential and ran with the idea, winning that battle. "Steve totally reset the relationship with the carriers," former Palm CEO and Handspring cofounder Donna Dubinsky told me. "I always felt that this was his biggest accomplishment."

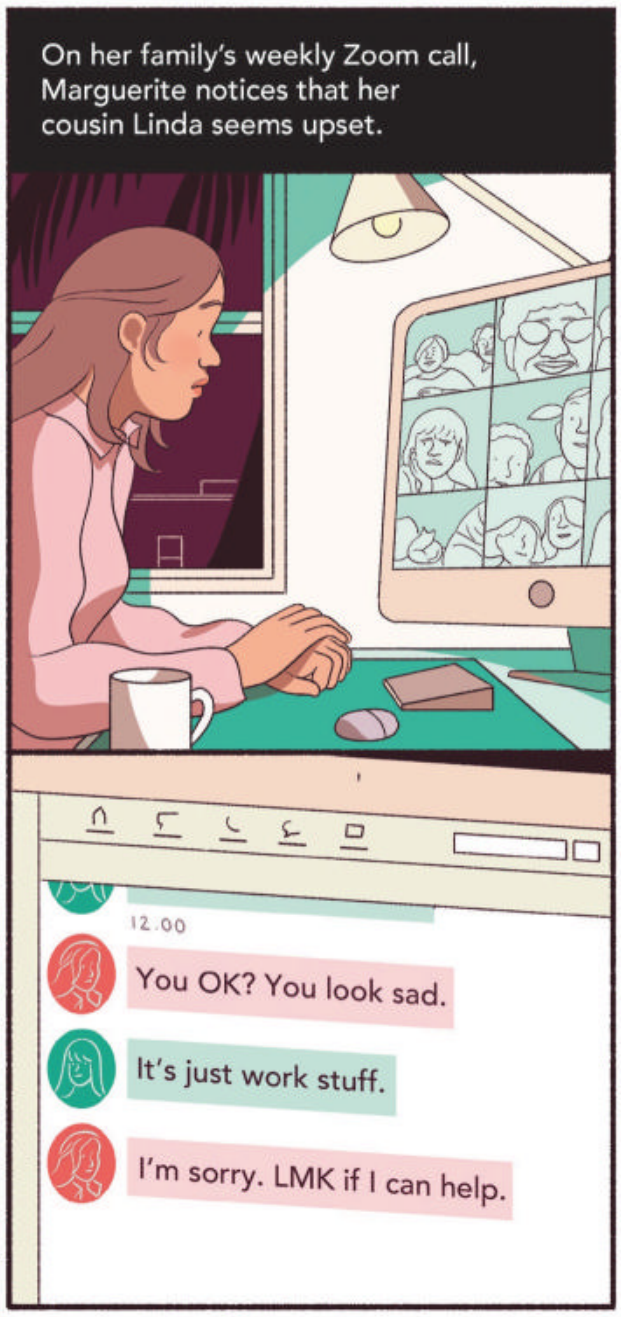
IN 1985, AFTER presiding over product launches that were technical wonders but sales busts, Steve Jobs was forced out of his own company. In 2005 he said, "It was awful-tasting medicine, but I guess the patient needed it." He learned that no matter how powerful his vision was, there were still times when he had to rethink his convictions. When he returned as CEO, it was not only with newfound openness but also with greater determination to hire people ready to challenge him and help him overcome his own worst instincts. That set the stage for Apple's resurgence.

Organizations need strong, visionary executives like Jobs. But they also need employees like Tony Fadell and Mike Bell, suppliers like Wendell Weeks, and stakeholders like the audience member who stood up to complain at Apple's developer conference—people who know how to effectively counteract bosses and colleagues who tend toward overconfidence, stubbornness, narcissism, or disagreeableness. In a turbulent world, success depends not just on cognitive horsepower but also on cognitive flexibility. When leaders lack the wisdom to question their convictions, followers need the courage to persuade them to change their minds.

HBR Reprint R2102L

ADAM GRANT *is an organizational psychologist at Wharton and the author of* Think Again: The Power of Knowing What You Don't Know *(Viking, 2021).*





CASE STUDY
Protect Your Company or Your Cousin?

by Joseph L. Badaracco

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 "The Analyst's Dilemma" (case no. 394056-PDF-ENG), by Joseph L. Badaracco and Jerry Useem, which is available at ***HBR.org****.*

AFTER A LONG WEEK, all Marguerite Espinoza wanted to do was shut down her computer. It was 5:30 on Friday afternoon, and she'd just finished her workday as a customer experience manager at Spring Fire, a manufacturer of outdoor smokeless firepits. But she was supposed to log in to her extended family's weekly Zoom call, a tradition they'd started at the beginning of the pandemic.

It'll be fun—it always is, she told herself as she searched for the link in her calendar. Most weeks she looked forward to the virtual gathering. It was chaotic, with up to eight households logging on, but it was a nice way to catch up with everyone and transition away from work into the weekend.

As soon as the faces of her parents, grandparents, sister, aunts, uncles, and cousins popped up, she was glad she'd joined. But about 20 minutes into the call, she noticed that one cousin, Linda Garbes, seemed distracted, maybe even upset.

She and Linda considered each other friends more than family. They had hung out at family gatherings since they were little and had kept in touch through college. Now they were both 26, and even though Marguerite was still in Houston and Linda had moved to Tulsa, they texted regularly.

Illustrations by **BIANCA BAGNARELLI**

Marguerite pinged Linda now: *You OK? You look sad.*

Linda replied right away: *It's just work stuff.*

Marguerite knew Linda's employer well; in fact, she'd helped her cousin get the job at Colter Metals, a custom manufacturer of parts for fans, blowers, and compressors. Colter supplied Marguerite's company with two key parts used in the fans on Spring Fire's firepits.[1] A year earlier, when Marguerite realized that Colter was based in Tulsa and saw on its LinkedIn page that the company was hiring, she had encouraged Linda, an accounting major, to apply for work in the finance department. Colter was a long-standing and critical supplier, and Spring Fire was about to renew its contract.

Marguerite and Linda had agreed early on not to talk to each other about work. They wanted to keep family—and their friendship—separate from their employers' business. And they'd managed to stay true to that commitment. So when Linda mentioned work, Marguerite didn't probe. Instead she wrote, *I'm sorry. LMK if I can help.*

An hour later, after she'd logged off Zoom, her phone buzzed with a text from Linda: *Actually, can u talk?* Marguerite called her right away. "OK," Linda said as soon as she'd answered. "If I tell you something, will you promise not to tell anyone?"[2]

Marguerite agreed. Linda explained that Colter had laid off 30% of its staff earlier that day—mostly on the production side—leaving her completely shocked.

"You had no idea that was coming?" Marguerite asked.

"No," Linda said, sounding teary. "I thought the company was doing fine, but apparently our biggest customer just canceled its contract with us."

"I thought Spring Fire was your biggest customer."

"Y'all are second."

Marguerite felt queasy. Her mind went immediately to what this could mean for her employer. Spring Fire was already six weeks behind on orders, and winter was just beginning. As a customer experience manager, she had to script language explaining the back orders. Earlier that day she'd drafted copy promising that any order placed before the end of November would be delivered by February 1. Would the situation with Colter jeopardize that promise?[3]

"I'm serious about not telling anyone, Rita," Linda said, using Marguerite's family nickname. "If Spring Fire gets cold feet and doesn't sign that renewal, I don't think Colter will make it."

"But will you all be able to meet the delivery dates in the contract with 30% fewer people?"

"I don't know," Linda said. "But I'm more worried about my job right now."

Marguerite felt guilty that she'd been so focused on Spring Fire. Of course she was worried about her cousin, too. But Linda had to know that Marguerite would consider the implications for her company and her own job.

DELAYS

The following Monday, Marguerite was relieved to be in the office. Spring Fire employees were allowed to go in on a rotating schedule, and she'd signed up for Mondays. Just a few employees were on-site each day, but she liked to see them, even if just their eyes above their masks.

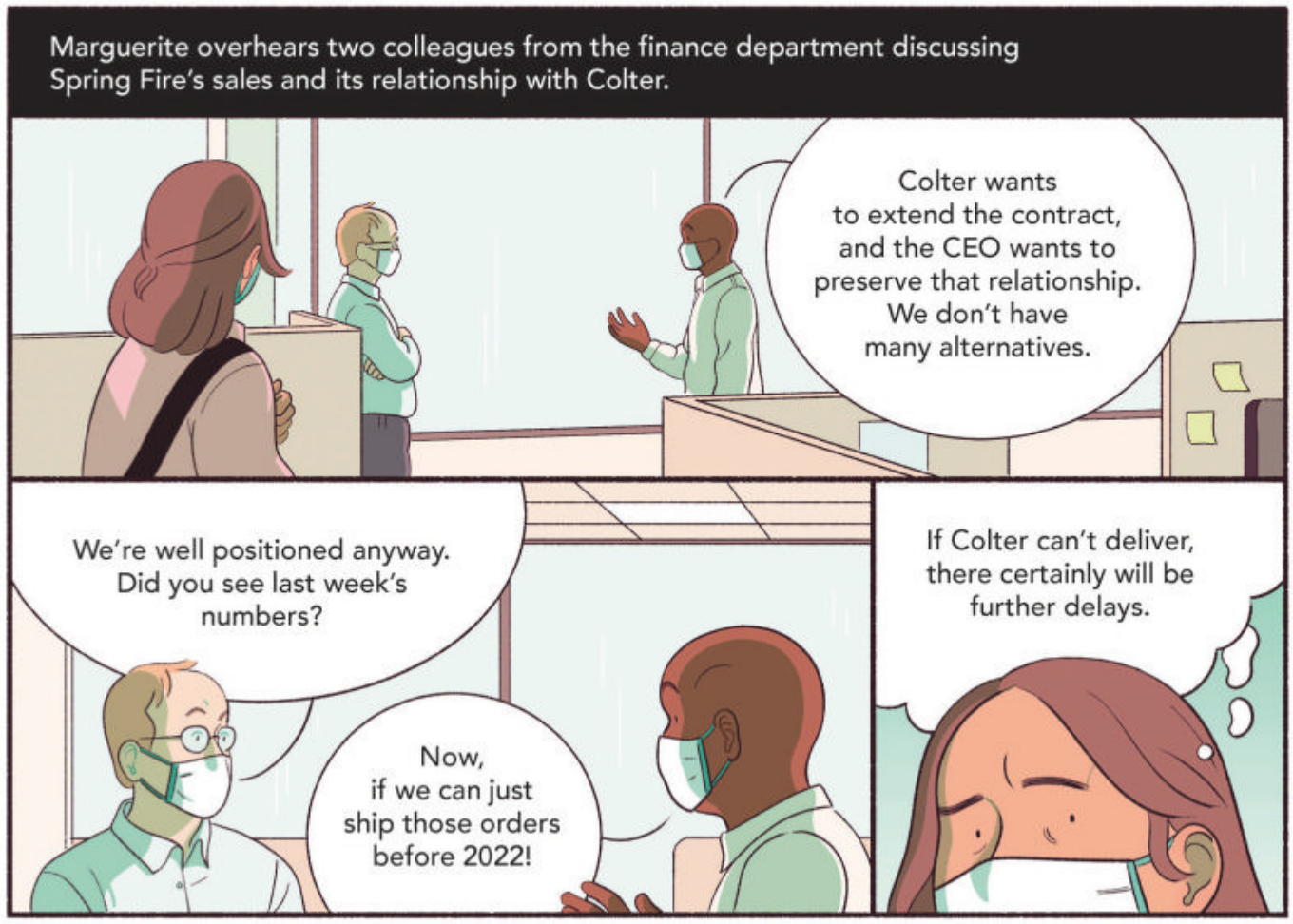
She unpacked her laptop and waved hello to two colleagues from the finance department, who were chatting in cubicles a couple of rows away from her. Because they were maintaining distance from each other, Marguerite could overhear their conversation, which happened to be about the Colter contract renewal.

Case Study Classroom Notes

1. *"Smokeless" firepits still produce smoke, but they reduce it through design and engineering that manages airflow. Some, like Spring Fire's, use fans.*

2. *Is this a fair question to ask someone who doesn't know what you're about to say?*

3. *Do back orders signal to consumers that a product is in high demand and therefore more desirable, or do they frustrate shoppers who might take their business elsewhere?*



4. In the wake of Covid-19, experts have urged companies to make their supply chains more resilient by identifying vulnerabilities and diversifying their supplier bases.

5. Is it smart for the CEO to focus her team on the order increases while downplaying the potential fulfillment risks?

"They came back with another ask this morning," one said. "They want to extend the contract by a year."

"Do you think Martha will go for it?" the other asked, referring to Martha Springer, the firm's founder and CEO.

"I know she wants to preserve that relationship. The list of alternative suppliers is short."

Marguerite thought about the risk dashboard that Martha always shared at their weekly all-hands meeting. Although most of the boxes were green or yellow, the supply-chain box had been red for the past few weeks. Many of the company's key inputs were sourced externally, and everyone knew that presented its greatest risk. Previous attempts to source the same parts that Colter made from China and Bangladesh had failed: Those products barely met industry standards and definitely didn't meet Spring Fire's quality criteria. After a lot of searching and false starts, the head of product had found a viable supplier in Mexico.[4] But many at the company were hesitant to use that option, because Spring Fire had made a point of marketing its products as fully made in the U.S.A.

During the all-hands meetings, the head of procurement typically explained everything that was being done to mitigate any potential halt in production. Martha would reframe the issue and reassure her employees. "An abundance of orders is a good problem to have," she'd say, pointing out the steep and encouraging climb in sales.[5]

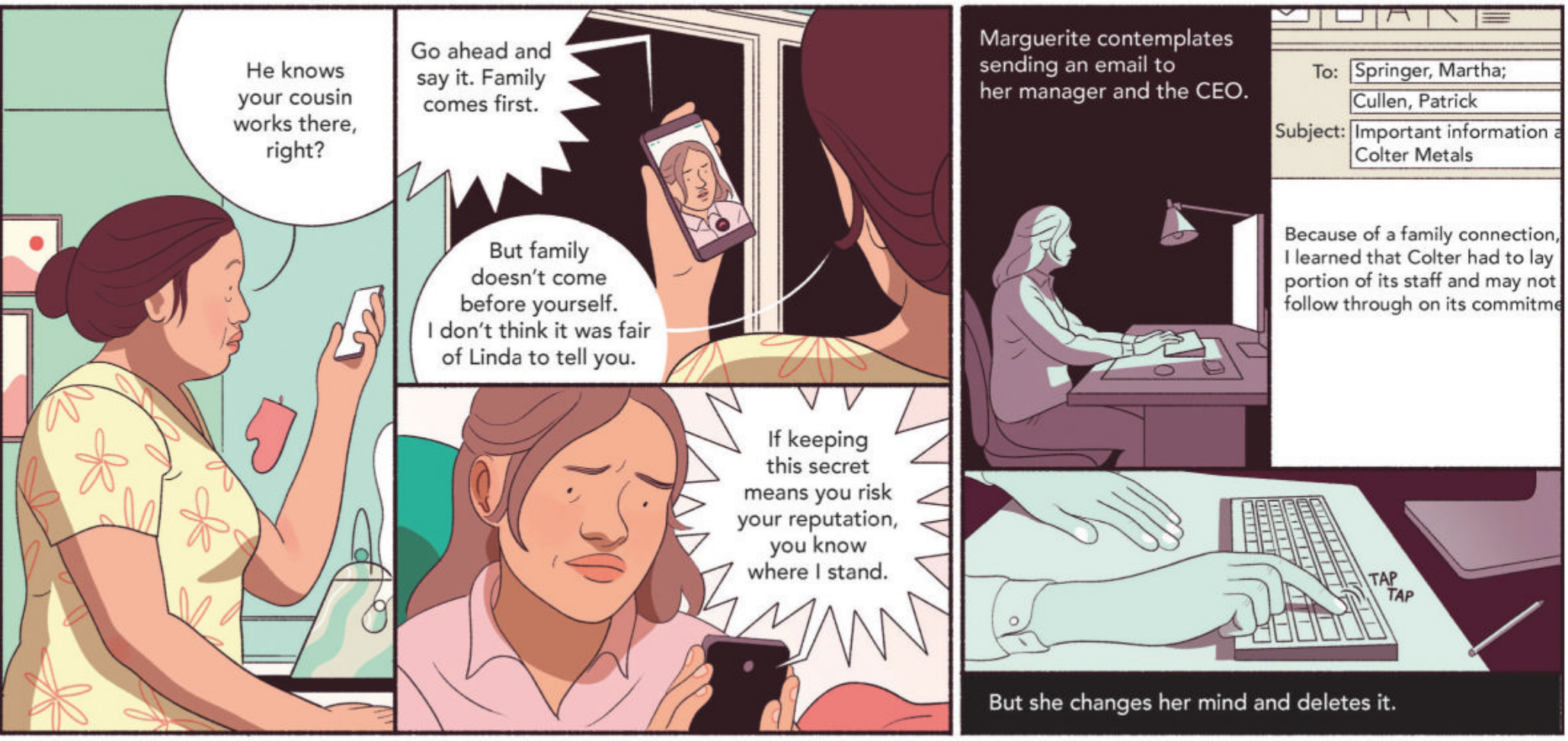
Luckily, Marguerite's colleagues now changed the subject quickly. One of them shrugged and said, "I'm not sure that it matters anyway. We're so well positioned. Did you see last week's numbers?"

"Amazing, right? Now, if we can just ship those orders before 2022!" They both laughed and then smiled at Marguerite, who managed a small chuckle.

If Colter was struggling, could Spring Fire meet the demand? Delivery times would certainly push back—again—despite all their hard work, and the company's reputation would suffer. It wasn't the only manufacturer in this space, and although it did offer a unique patented fan to further reduce smoke, it was unclear whether consumers appreciated that differentiator.

Just then Patrick Cullen, the chief marketing officer and Marguerite's boss, walked into his cubicle a few rows over and spoke loudly from behind his mask: "Good weekend, Marguerite?" She gave him a thumbs-up. "Anything I should know before I dive in?"

She hesitated and then shook her head.



FAMILY FIRST?

That night Marguerite texted her mom, Angela: *Free to talk?*

Her mom FaceTimed her right away and said, "What's wrong? You never want to talk on the phone."

It was true. Marguerite's mom always kept her on the phone much longer than she would like. But she really needed advice. She recounted the Friday night call with Linda and explained that she'd spent most of the weekend agonizing about what to do. She described how guilty she'd felt at the office earlier.

"Do you feel like you owe Patrick and the company your loyalty?"[6] her mother asked. Patrick had taken a chance by hiring her three years earlier when she had close to zero experience in customer service or marketing. Since then he'd been her tireless advocate.

"I guess so. Though if things go south with Colter and Spring Fire, it's not like he or anyone else will wonder if I knew."[7]

"You don't think he will?" Angela asked. "He knows your cousin works there, right?"

Indeed, Marguerite had been excited when Linda got the job and had shared the news with Patrick. She remembered now that he'd actually made a throwaway joke about how nice it was to have a spy at one of their suppliers. She'd laughed but then assured Patrick that she and her cousin had agreed not to talk shop.

"I know, Mom. And I know what you're going to say. You don't even have to say it."

"What am I going to say, smarty-pants?"

"Family comes first."

When her mother shook her head, Marguerite was surprised. "C'mon, that's always been our motto," she said.

"But I didn't mean that family comes before yourself," Angela said. "It could be *you* out of a job if you all can't deliver on those orders. Or if Spring Fire finds out you knew about this problem and didn't say anything. I don't think it was fair of Linda to tell you. You'd agreed to not talk about work."

Marguerite was shocked. She'd been sure that her mother would tell her to keep her promise. If Colter didn't meet its obligations, Spring Fire could rightly cancel the contract and go with the supplier in Mexico. It would be a huge headache, of course, but the company would be OK. And assuming that Patrick and Martha weren't furious with her, Marguerite would still be employed.

"So all bets are off?" she asked Angela. "I can betray Linda?"[8]

"No, not necessarily. I'm just saying it's more complicated than deciding between Linda and your company. If keeping this secret

6. *To what extent should we feel a duty to our employers? And can we expect that loyalty to be returned?*

7. *Does knowing that she won't be found out lessen her obligation to say something?*

8. *Does the fact that Linda violated their pact to not talk about work mean that Marguerite doesn't need to keep her promise of silence?*

means you risk your reputation, I think you know where I stand."

TO SEND OR NOT TO SEND?

That night Marguerite drafted an email to Patrick and Martha with the subject line "Important information about Colter Metals."

Because of a family connection to Colter (which Patrick is aware of), I learned on Friday that the company had to lay off a significant portion of its staff and may not be able to meet the commitments laid out in the contract renewal. I thought Spring Fire should know before that contract is signed. This information was shared in confidence, so I'd ask that you not attribute it to me in any conversations with Colter.

She read the draft several times and even allowed herself to imagine how good it would feel to press Send, knowing that the higher-ups would hugely appreciate her warning them about such a risk. The word "hero" popped into her head for a moment. But then she deleted the message, removed Martha's email address from the "To" field, and wrote, *Patrick, can we talk? It's kind of urgent.*

As she hovered her mouse over the Send button, she thought about Linda. This click could end their friendship and create family drama. Would it be worth it?

JOSEPH L. BADARACCO *is the John Shad Professor of Business Ethics at Harvard Business School.*

Should Marguerite tell her boss what she knows about Colter Metals?

THE EXPERTS RESPOND

STACEY PECK *is a solutions associate at Spencer Stuart.*

Marguerite's priority should be protecting herself and her employer.

If she stays silent, she could be putting Spring Fire's future at risk and herself and her colleagues out of a job. Her company and Colter Metals—and all their respective employees—would be in a sinking ship together. Nobody wants that.

Linda has certainly put her in a tough situation, and Marguerite is understandably worried that sharing the information about Colter's layoffs will betray her cousin's trust. But I believe she has an obligation to tell Patrick what she's learned. And I think she can do so in a way that doesn't damage her family relationships.

Rather than send an email, she should pick up the phone and call her boss. Without explaining how she got the information, she can say that she's heard a rumor that Colter Metals is struggling and suggest that he inquire about

the situation. It's important that she admit that she doesn't have all the facts and that Colter's leadership may well have a contingency plan. But Spring Fire should look into this before it renews the contract. Even if Patrick suspects that Marguerite got the information from Linda, she doesn't have to implicate her cousin outright.

This case reminded me of a group of friends I made at work many years ago. There were eight of us, and although we've since transferred to other locations or changed companies, we've stayed very close. One of those friends is now on the legal team at my organization, which means she's privy to news and developments that she can't pass along. We have an unspoken agreement that we won't compromise either our careers or our friendship by sharing confidential information, and we've never broken it. Linda violated the arrangement she made with Marguerite and can't now expect her to hide information material to her company and her job.

It may well be that Linda is making Colter's layoffs a bigger deal than they actually are. But to know whether that's true, Marguerite needs to take action. That includes telling Linda that she felt she had to share the news even as she took pains to avoid implicating her. It will be a tough conversation, but she needs to be up-front. She can explain that she never mentioned her cousin and acknowledge that many supply chains have been disrupted during the pandemic, so it's perfectly normal for customers to ask suppliers—even unprompted—whether anything might prevent them from delivering on their promises.

I'm a relationship person, and I would never do anything knowingly to harm a bond with a friend or a family member. But in this case, I think Marguerite can do right both by Linda and by Spring Fire. Their interests are less at odds than she thinks.

MITA MALLICK *is the head of inclusion, equity, and impact at Carta.*

Marguerite shouldn't say anything to Patrick, Martha, or anyone else at Spring Fire.

I understand the temptation to share the information Linda gave her, but doing so won't reflect well on her and may cause more trouble than it's worth.

I've twice been in a similar situation. Early in my career I became friendly with a woman who worked in HR at the same company. She and I went out for drinks, and after getting a little tipsy, she told me that the company was restructuring and a good friend of mine was going to be laid off. Like Linda, my colleague asked me not to say anything. I struggled with what to do but eventually decided to keep the information to myself, and I'm glad I did. The restructuring got pushed out by three months, and my friend ended up leaving the company before then. Had I told her what I knew—information that turned out to be inaccurate—it would have caused her a lot of unnecessary stress.

Later in my career, when I was at a consumer packaged goods company, someone in my network told me that one of the marketing agencies we worked closely with had been invited to pitch for our biggest competitor. (Conflict-of-interest norms prevented the agency from doing business with both of us.) I trusted the information but, again, hesitated to act on it. Eventually our agency reps told us that they'd had a chance to go through the RFP process with our competitor and had talked to the company but declined to proceed. As before, had I shared the information internally, it would have caused a stir for no reason.

My experience has taught me that it's better to wait and let things play out, especially if you can't be sure the information is accurate. During the pandemic, situations are fluid. Leaders are planning and replanning, pivoting, firing, and sometimes rehiring. It may be that Colter's leadership team feels that it's advantageous to do layoffs now but plans to bring many people back later on. Linda isn't a senior leader and may not be privy to the full picture. It's also possible that fear of losing her job keeps her from seeing the situation clearly.

If Marguerite shares the information and Spring Fire uses it to make a decision, such as going with the Mexican supplier, but Linda's facts were wrong or incomplete and the problems at Colter blow over, there could be serious downstream consequences.

Also, if I were Patrick and my employee shared intel from her cousin that she had promised to keep secret, it would give me pause. I'd wonder whether I could trust her to keep information about Spring Fire confidential. What if the roles were reversed, and Spring Fire planned to discontinue the product that uses Colter Metals' parts? Would Marguerite tell Linda? Patrick might get the impression that she's loyal only when it's convenient or beneficial to her.

One thing Marguerite could do is encourage Linda to talk to Colter's management about being forthright with Spring Fire. That's part of being a good partner and supplier: letting your customers know when there's a problem, whether it's a part out of stock, a fire in your warehouse, or financial stress due to a lost contract. I'd bet Martha would respond positively to that candor.

So Marguerite should sit tight for now. I'd remind her that jobs and employers come and go, so your time and energy are better spent focusing on the relationships you want to keep.

HBR Reprint R2102M
Reprint Case only R2102X
Reprint Commentary only R2102Z

SYNTHESIS

WHAT DO WE LIKE ABOUT WFH?

Evaluating the pros and cons

by Vasundhara Sawhney

NEARLY A YEAR into working from home because of Covid-19 closures, each day seems exactly like the one before. I wake up at 7 AM, prep meals, help my son with online school, work alone in a makeshift office, exercise, and finally drop into bed exhausted. Personal-professional boundaries—once difficult to manage—have been entirely erased. As many people in similar situations have noted, we aren't just working from home (WFH) anymore. We are living at our jobs.

For some, this has led to greater productivity. I certainly feel that I'm getting more done: for work, with my family, and around the house. What's more, I have greater flexibility to decide what to do when, whether that means answering emails in the evening or spending time with loved ones during the day. There's a reason that WFH was on the rise even before the pandemic, and now both organizations and individuals seem more comfortable with it than ever before. In September 2020 the Conference Board surveyed more than 330 HR executives at large U.S. companies and reported that one-third expect 40% or more of their employees to work virtually past the spring of 2021, while 36% say they are now willing to hire workers who are 100% remote. But are we ready for that?

The downsides of prolonged WFH—monotony, social isolation, burnout—can't be ignored. According to one survey released in 2020, employees working apart from colleagues were most concerned about diminished collaboration and communication, increased loneliness, and being unable to unplug. And studies show that what remote workers gain in efficiency and productivity, they lose in harder-to-measure benefits such as creativity, innovation, teamwork, trust, and empathy.

Several new books aim to help us figure out this WFH reality—analyzing the pros and cons, offering dos and don'ts, and making

Illustration by MARLY GALLARDO

predictions about which Covid-era changes we'll keep and which we'll jettison. How can we re-create positive real-world interactions and outcomes in mostly virtual settings? Can we reintroduce the office without succumbing to the same old inefficiencies and stressors? Or should we look to a future in which the workplace is more an idea than a location?

In ***Working from Home: Making the New Normal Work for You,*** the Salesforce executive Karen Mangia argues that permanent WFH can be a viable career choice as long as you avoid the biggest pitfalls, such as never putting away your laptop. "Like those pretzels or potato chips or donuts right there in your kitchen, work is always available," she warns. "But you know that always grazing isn't a healthy strategy."

Her recommendations for WFH the right way? She suggests separating work and home by means of rules and rituals. Instead of logging in right after you roll out of bed, follow a more traditional morning routine (exercise, walk the dog, grab breakfast). Be deliberate about how you use time throughout the day. Build in "pauses," taking a few minutes to listen to music, to write in your journal, or to take a walk around the block. This helps preempt the WFH time warp (in which you've somehow spent the whole day staring at a computer screen) and makes room for new discoveries.

Perhaps we can take a cue from the 70 location-independent professionals whom the professors Rachael A. Woldoff and Robert C. Litchfield interviewed for their book ***Digital Nomads: In Search of Freedom, Community, and Meaningful Work in the New Economy.*** These are mostly Millennials who fled cities, corporate offices, and cultures of busyness in search of more autonomy and mobility and a better quality of life while remaining gainfully employed thanks to telecommuting technologies. Critically, however, they have not done so at the expense of human connection; in fact, the authors note that all the nomads insist on "the necessity of an in-person community" and "meaningful…face-to-face social networks," whether they're "in Bali or elsewhere."

Some, like Oscar, a Canadian life coach and podcaster, also create group accountability rituals that Mangia would appreciate. When friends came to his villa to work with "good Wi-Fi" for the day, he asked them all to write down what they wanted to accomplish. "You show up, you declare what you are doing, and you do it," he told the authors.

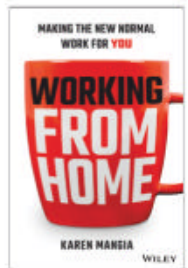
Digital nomads may not be colocated with colleagues who share an employer, but they enjoy working alongside and bonding with a changing cast of characters from diverse companies, industries, and countries. And they find both personal and professional success along the way.

The authors note that although Covid-19 has perhaps disrupted a globe-trotting lifestyle, people can still be mobile and work flexibly within their home countries. And once vaccines have been distributed and travel bans and quarantine rules lifted, we may find many more knowledge workers considering nomadism.

In following Mangia's and Woldoff and Litchfield's advice, we can improve remote work for individuals. But how can an organization manage dozens, hundreds, or even thousands of dispersed teams? A recent Slack survey found that only 12% of knowledge workers want to return to the office full-time. Many employers may struggle to go back to business as usual.

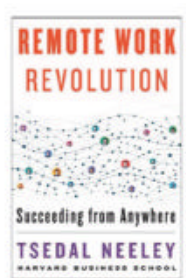
In ***Remote Work Revolution: Succeeding from Anywhere,*** the Harvard Business School professor Tsedal Neeley offers guidance. Although she acknowledges that "the more time we spend without regular in-person contact with coworkers, the more persistent and urgent questions about bonding, trusting, and alignment become," she also believes that research-backed best practices can help fill those gaps. Consider, for example, a "launch session"—an open, leader-led discussion during which remote teammates clarify shared goals, individual roles, constraints, resources, and collaboration norms. Neeley recommends that teams communicate via video when possible (but not always), encourage differences of opinion, and spend more time on small talk to build trust.

No one knows what the new normal will be for knowledge workers. But as individuals, teams, and organizations, we all need to find ways to leverage what's good about WFH while creating better work/life boundaries and staying connected and engaged. I don't feel the need to get back to my cubicle anytime soon, but I do miss great brainstorming sessions, team lunches, and coworker camaraderie. And I'm still not sure we can replicate all that digitally—despite the sunny attitudes and sound advice to be found in all three of these books.



Working from Home
Karen Mangia
Wiley, 2020

Digital Nomads
Rachael A. Woldoff and Robert C. Litchfield
Oxford University Press, 2021



Remote Work Revolution
Tsedal Neeley
Harper Business, 2021

HBR Reprint R2102N

VASUNDHARA SAWHNEY *is a senior editor at HBR.*

SPOTLIGHT

How Leaders Can Drive Sales

As companies seek to rebound from the pandemic, growing revenue is a top priority. This issue's Spotlight offers guidance on how to maximize the effectiveness of your sales force in a new landscape. | **page 39**

THE COMPLETE SPOTLIGHT PACKAGE IS AVAILABLE IN A SINGLE REPRINT.
HBR Reprint R2102B

When CEOs Make Sales Calls

Noel Capon and Christoph Senn | page 40

Many senior executives at B2B suppliers see spending time with customers as a way to stay abreast of the market and as part of their job. But the results of their interactions vary widely. They can boost revenue and strengthen ties—or they can damage or even rupture relationships.

This article describes five distinct roles played by senior executives in relation to strategic customers—hands-off, loose cannon, social visitor, dealmaker, and growth champion—and examines the risks and rewards of each type. Becoming more customer-centric is not just another project for top executives to put on the to-do list, the authors argue; it is an essential part of growth and a fundamental driver of success.

How to Shift from Selling Products to Selling Services

Doug J. Chung | page 48

Only a few years ago, most software companies sold seat licenses for their products, charging customers on the basis of head count. But today, software is typically provided using cloud-based software-as-a-service (SaaS) models that charge customers fees for consumption.

Technology companies have spent billions on the innovation necessary to achieve this product shift. Now, they need to transform their sales organization and sales management practices accordingly, including an overhaul of the skills salespeople need, how they are trained and compensated, and how they interact with clients.

Selling After the Crisis

Frank V. Cespedes | page 52

Like perishable goods in grocery stores, sales models have a sell-by date. As product standards evolve and new entrants emerge, buyers have more choices and demand more in terms of quality and performance across vendors. Firms that fail to adjust to changing customer expectations lose advantage. Building and maintaining a relevant sales model—that is understood by everyone from executives in the C-suite to sales reps in the field—is the most important way that companies respond to market changes. As firms emerge from the pandemic crisis, they should take a fresh look at their sales models. This includes revamping customer selection criteria, increasing clarity about the customer buying process, and making more effective use of selling metrics.

HOW WE DID IT

HOW WE DID IT

THE FORMER AND CURRENT CHAIRS OF MASTERCARD ON EXECUTING A STRATEGIC CEO SUCCESSION

by Richard Haythornthwaite and Ajay Banga

32 Harvard Business Review March–April 2021

The Former and Current Chairs of Mastercard on Executing a Strategic CEO Succession

Richard Haythornthwaite and Ajay Banga
page 32

As the chairman of a publicly traded multinational corporation, it's difficult to contemplate replacing a charismatic, visionary CEO who tripled your organization's revenue, increased its net income sixfold, and grew the company from $30 billion in market capitalization to $300 billion during his 10-year tenure. As a chief executive, it's perhaps even harder to think about how to replace yourself with someone who you believe will do the job better than you could over the next decade. But Mastercard found a way to approach its most recent CEO transition thoughtfully and systematically by sticking to several rules: It cast a wide net, considering more than 40 internal employees and a handful of standout externals. It committed to inclusivity in decision-making, asking the entire board to participate. It insisted on solving for tomorrow's problems, not today's, in clarifying what type of new leader was needed. It focused on developing and retaining all its current and future stars—not just filling the top job. Finally, the authors pledged to keep their minds open and their personal opinions to themselves—while discouraging early preferences and groupthink among the directors—until one final candid and decisive debate.

HBR Reprint R2102A

MANAGING YOURSELF

Experience

Advice and Inspiration

MANAGING YOURSELF

PERSUADING THE UNPERSUADABLE

Lessons from science—and the people who were able to sway Steve Jobs

by Adam Grant

Illustrations by ELENI KALORKOTI

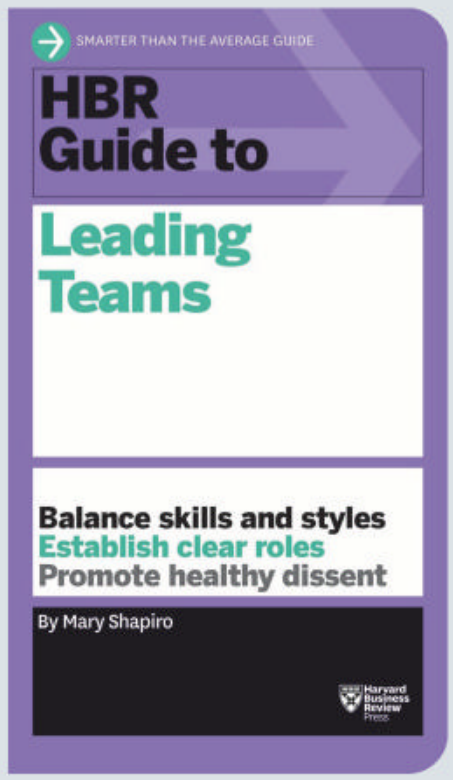
Harvard Business Review March–April 2021 131

Persuading the Unpersuadable

Adam Grant | page 131

We live in an age of polarization. Many of us may be asking ourselves how, when people disagree with or discount us, we can persuade them to rethink their positions. The author, an organizational psychologist, has spent time with a number of people who succeeded in motivating the notoriously self-confident Steve Jobs to change his mind and has analyzed the science behind their techniques. Some leaders are so sure of themselves that they reject good opinions and ideas from others and refuse to abandon their own bad ones. But, he writes, "it is possible to get even the most overconfident, stubborn, narcissistic, and disagreeable people to open their minds." He offers some approaches that can help you encourage a know-it-all to recognize when there's something to be learned, a stubborn colleague to make a U-turn, a narcissist to show humility, and a disagreeable boss to agree with you.

HBR Reprint R2102L

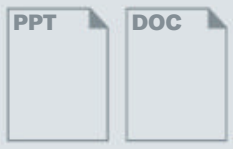


PRODUCT #10022E

Behind Every Great Team Is a Great Leader

Get your team working together and producing better results.

INCLUDES CUSTOMIZABLE TOOLS AND TEMPLATES IN MULTIPLE FORMATS



Harvard Business Review

AVAILABLE EXCLUSIVELY AT:
hbr.org/guide-series

Features

LEADING TEAMS

For an Agile Transformation, Choose the Right People

Rob Cross, Heidi K. Gardner, and Alia Crocker | page 60

Agile methodology, created to fast-track software development, is now being used throughout organizations by teams that want to execute projects quickly. But those efforts often don't pan out, say Babson's Rob Cross and Alia Crocker and Harvard Law School's Heidi K. Gardner. Their research reveals that many large agile initiatives not only miss their goals but also cause organizational disruption—including staff burnout, the loss of key talent, and infighting among teams.

What's going wrong? With the help of organizational network analysis—a methodology for mapping how people collaborate—the authors have identified where unforeseen barriers undermine agile initiatives. The main problem they found: Traditional practices for executing agile projects are ineffective. Companies err by staffing agile teams only with stars, isolating them from the main business, and dedicating members 100% to teams. This article offers alternative approaches: tapping "hidden stars," who will be less overloaded, for agile initiatives, and then identifying and reaching out to highly connected potential resources who can bring in expertise as needed.

HBR Reprint R2102C

ENTREPRENEURSHIP

How Venture Capitalists Make Decisions

Paul Gompers et al. | page 70

For decades now, venture capitalists have played a crucial role in the economy by financing high-growth start-ups. While the companies they've backed—Amazon, Apple, Facebook, Google, and more—are constantly in the headlines, very little is known about what VCs actually do and how they create value. To pull the curtain back, Paul Gompers of Harvard Business School, Will Gornall of the Sauder School of Business, Steven N. Kaplan of the Chicago Booth School of Business, and Ilya A. Strebulaev of Stanford Business School conducted what is perhaps the most comprehensive survey of VC firms to date. In this article, they share their findings, offering details on how VCs hunt for deals, assess and winnow down opportunities, add value to portfolio companies, structure agreements with founders, and operate their own firms. These insights into VC practices can be helpful to entrepreneurs trying to raise capital, corporate investment arms that want to emulate VCs' success, and policy makers who seek to build entrepreneurial ecosystems in their communities.

HBR Reprint R2102D

LEADERSHIP

Are You Really Listening?

Adam Bryant and Kevin Sharer page 80

Senior leaders, particularly CEOs, confront a central paradox in their work: They generally have access to more lines of communication than anybody else, but the information that flows to them is suspect and compromised. Warning signals are tamped down. Key facts are omitted. Data sets are given a positive spin. All of it isolates leaders in a dangerous information bubble.

But they can escape that bubble, the authors argue, by working actively to create a more expansive "listening ecosystem." They first have to learn how to listen actively themselves, without distraction or judgment, purely for comprehension; then they have to create systems and processes all around them that elevate listening to a constant state of hypervigilance. This sort of sustained attention to listening allows leaders to pick up on early signs of both danger and opportunity—and that, in turn, allows them to do their jobs and serve their organizations better. The authors conclude this piece by sharing advice—gleaned from interviews and personal experience—about how leaders can learn to listen better.

HBR Reprint R2102E

HUMAN RESOURCES

Turn Departing Employees into Loyal Alumni

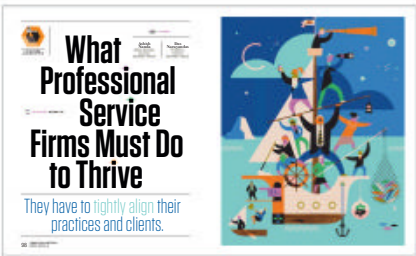
Alison M. Dachner and Erin E. Makarius | page 88

Despite the high rate of churn in the labor market today, many companies pay scant attention to offboarding employees. That's a mistake, say the authors, who argue that offboarding is an increasingly vital part of talent management—and an opportunity to create long-term value.

Drawing on their scholarly research and interviews with HR professionals, the authors recommend a number of best practices. One is to plan well in advance for employees' departures: Because few people stay at one company for their whole career, it's important to have frank conversations throughout their tenure about their goals and prospects for advancement. When employees do choose to leave or get laid off, managers should acknowledge their contributions, provide resources to support them through the transition, and use exit interviews as an opportunity for mutual learning. Companies should also create formal alumni programs to keep former workers connected to the organization. Together, these offboarding practices can create a cadre of ex-employees who become valuable customers, suppliers, boomerang employees, mentors to current workers, and ambassadors for the firm.

HBR Reprint R2102F

MANAGING ORGANIZATIONS



What Professional Service Firms Must Do to Thrive

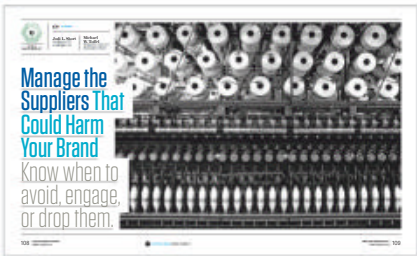
Ashish Nanda and Das Narayandas | page 98

During economic slowdowns, consulting, law, and accounting firms often start offering services and taking on clients they really shouldn't, just to keep the lights on. This path is perilous. If a firm's practices have a diffuse mix of clients and unclear strategic positioning, it will weaken the firm's market profile and lead to internal conflicts, especially about the organization's future direction.

This article presents two tools that professional service firms can use to manage their client mix and optimize their strategic position. The first is the *practice spectrum.* All practices fall on a continuum of sophistication that ranges from "commodity" to "rocket science." Any position on this spectrum can be profitable, though the forces driving profits change as you move along it—as do the capabilities and skills required. Successful practices understand their true position on the spectrum and know which performance levers to pull. The second tool is the *client portfolio matrix,* which separates clients into four categories on the basis of cost to serve and willingness to pay. Rather than spreading clients across all four, firms should focus their acquisition efforts and follow different relationship strategies for each type of client.

HBR Reprint R2102G

SOCIAL RESPONSIBILITY



Manage the Suppliers That Could Harm Your Brand

Jodi L. Short and Michael W. Toffel | page 108

The pandemic has placed a new spotlight on working conditions in factories that supply global companies. To avert problems, firms often impose codes of conduct on their suppliers and perform audits to assess compliance. Do these measures help identify unethical suppliers and lead to improvements? After an unsatisfactory audit, what are the chances the supplier will remedy matters?

To answer these questions, the authors studied code-of-conduct audits of thousands of factories around the world. They found that suppliers are more likely to improve conditions if they do one or more of five things: certify compliance with management system standards, adopt lean management, use union workers, avoid piece-rate pay, and serve once-tarnished buyers. The research also identified monitoring methods that can boost the odds of improvement and uncovered several factors that result in more-accurate audit reports.

Managing working conditions in global supply chains is an ongoing challenge. The authors' findings can empower managers to better predict which factories are likely to improve working conditions and to design monitoring programs that will foster improvement and accurately track performance.

HBR Reprint R2102H

ORGANIZATIONAL CULTURE

Designing the Hybrid Office

Anne-Laure Fayard, John Weeks, and Mahwesh Khan page 114

The natural experiment forced on the world by the coronavirus demonstrates that the academics and tech visionaries who have been talking since the 1980s about the possibilities of remote work were not exaggerating. After months of working remotely, we have all learned that most tasks are accomplished and most meetings go just fine without the office.

But that, the authors warn, doesn't mean companies should suddenly abandon their workplaces. Going to the office, they argue, has never been just about work. And technology won't make socializing less dependent on direct interpersonal contact anytime soon. In this article they describe the important social functions of an office: It's where people build trust through personal interaction, learn the nuances of their job, and build and maintain organizational culture. And it's through random in-person encounters between people from different functions and cultures that many of the most innovative business ideas are born. The authors conclude by showing how design, technology, and management practices can be used to make tomorrow's offices more effective as social, learning, and innovation spaces.

HBR Reprint R2102J

SUSTAINABILITY

"It Will Need to Be the Most Amazing Thing Humankind Has Ever Done"

Adi Ignatius | page 124

Climate change is a pressing concern for Bill Gates, who has just published a new book on the subject. He spoke with HBR's editor in chief about the need to reduce carbon emissions to zero by 2050—and the difficulty of that undertaking. It will require new government policies, changes in corporate and individual behavior, and, above all, more R&D funding and innovation to create cleaner technologies and green products. Gates is optimistic that we can succeed but clear-eyed about what lies ahead if we don't: rising temperatures, the disappearance of ecosystems, disastrous crop failures, economic pain, and massive loss of life.

HBR Reprint R2102K

POSTMASTER
Send domestic address changes, orders, and inquiries to: *Harvard Business Review,* Subscription Service, P.O. Box 37457, Boone, IA 50037. GST Registration No. 1247384345. Periodical postage paid at Boston, MA, and additional mailing offices.

Printed in the U.S.A. *Harvard Business Review* (ISSN 0017–8012; USPS 0236–520), published every other month for professional managers, is an education program of Harvard Business School, Harvard University; Srikant Datar, dean.

Published by Harvard Business School Publishing Corporation, 60 Harvard Way, Boston, MA 02163.

"When I'm inspired to create, it's not any profound process. It's more like I have an antenna and pick up something—a word or image—and do a little memo or sketch."

TAKASHI MURAKAMI

After underperforming in high school, Murakami went to a college of art not to start a career but because he thought it was his only option. And yet he moved on to a graduate program and then did a pivotal stint in New York, where he developed the East-meets-West, high-meets-low aesthetic that would make him famous. A darling of the critics who has collaborated with the likes of LVMH, Kanye West, and the Museum of Modern Art, he produces and promotes artwork through his company, Kaikai Kiki.

Interviewed by Alison Beard

HBR: How did you develop your artistic style?

MURAKAMI: I went to New York on a one-year Asian Cultural Council grant, and I thought, "OK, I have a year to make a gallery debut." I understood that what I'd been doing in Japan wouldn't work in the American art scene. So I was exploring and looking at three artists in particular: Rirkrit Tiravanija, who is Thai and was doing a gallery show serving curry; Felix Gonzalez-Torres, a Cuban whose expression about being a minority might have come from somewhere pure but to me looked like a strategy; and Bob Flanagan, an American disabled since youth—and therefore also marginalized—who had a museum show. I recognized that I, too, was a minority in New York and would need to use my background. I'm an anime *otaku,* or "geek." That became the style I have to this day.

Why have you since gravitated to collaborative studio work?

When I was in high school, I was fat. I loved Cheetos and would eat five bags a day. I was unpopular. I just played video games in coffee shops. But when I started university, I lost some weight, joined the animation club, made an effort to become a regular student, and ended up with a lot of friends. Before graduation everyone had their own projects, and mine was a traditional fish painting, where you paint each scale one by one. But there was no way I was going to finish on time, so my friends volunteered to help. And when the work was complete, everyone was so happy. I then went to graduate school and for the dissertation was again running behind. At the time, I was teaching at a university-entrance-exam prep school, and I guess I abused my position by having 20 or so students help me finish the work. I would feed them fried rice, and they were excited to do it. I realized then that I feel happy not when a work is complete but when everyone who participated in it is celebrating. And so maybe my path as an individual artist was a vocation, not a passion, and what I really enjoyed were group efforts, where you create something together. From then on I was gathering people together, and around age 37 or 38, I started making money and paying everyone. Then I received a letter from the tax office, and an attorney told me that I had to form a company and properly pay salaries and taxes. So I had to build this system.

You seem to get the commercial side of art pretty well, though.

Whether they're athletes or artists, some people have amazing ability; they can just do it. Others love playing but aren't geniuses, so they do their best to survive in the field. I know myself and my ability, and I know that I don't have any genius. I can only go at this strategically and look at how the game is being played. After my work sold for the first time, my gallerist took me out to dinner and explained in very slow, clear English so that I could understand, "Your work sold today, which means that we both benefited, and this is how the relationship between a gallery and an artist is nurtured." The real art scene is a business.

HBR Reprint R2102P

Julien M. Hekimian/Getty Images

FOR MORE FROM MURAKAMI, GO TO **HBR.ORG**.

Others may lead investors to the same. We help you go your own way.

Wealth is personal, and so is the way you manage it. That's why we work with you to create a financial roadmap that feels right for you. It's time to change to a modern approach to wealth management.

charles SCHWAB

Investor's Business Daily MOST TRUSTED FINANCIAL COMPANIES 2020 #1 Overall

Own your tomorrow.

Learn more at **Schwab.com**

From Investor's Business Daily, October 12, 2020, ©2020 Investor's Business Daily, Inc. All rights reserved.

©2020 Charles Schwab & Co., Inc. All rights reserved. Member SIPC. (0920-0ZDU) ADP112281-00