

Harvard Business Review

35 Adapting to
Digital Disruption

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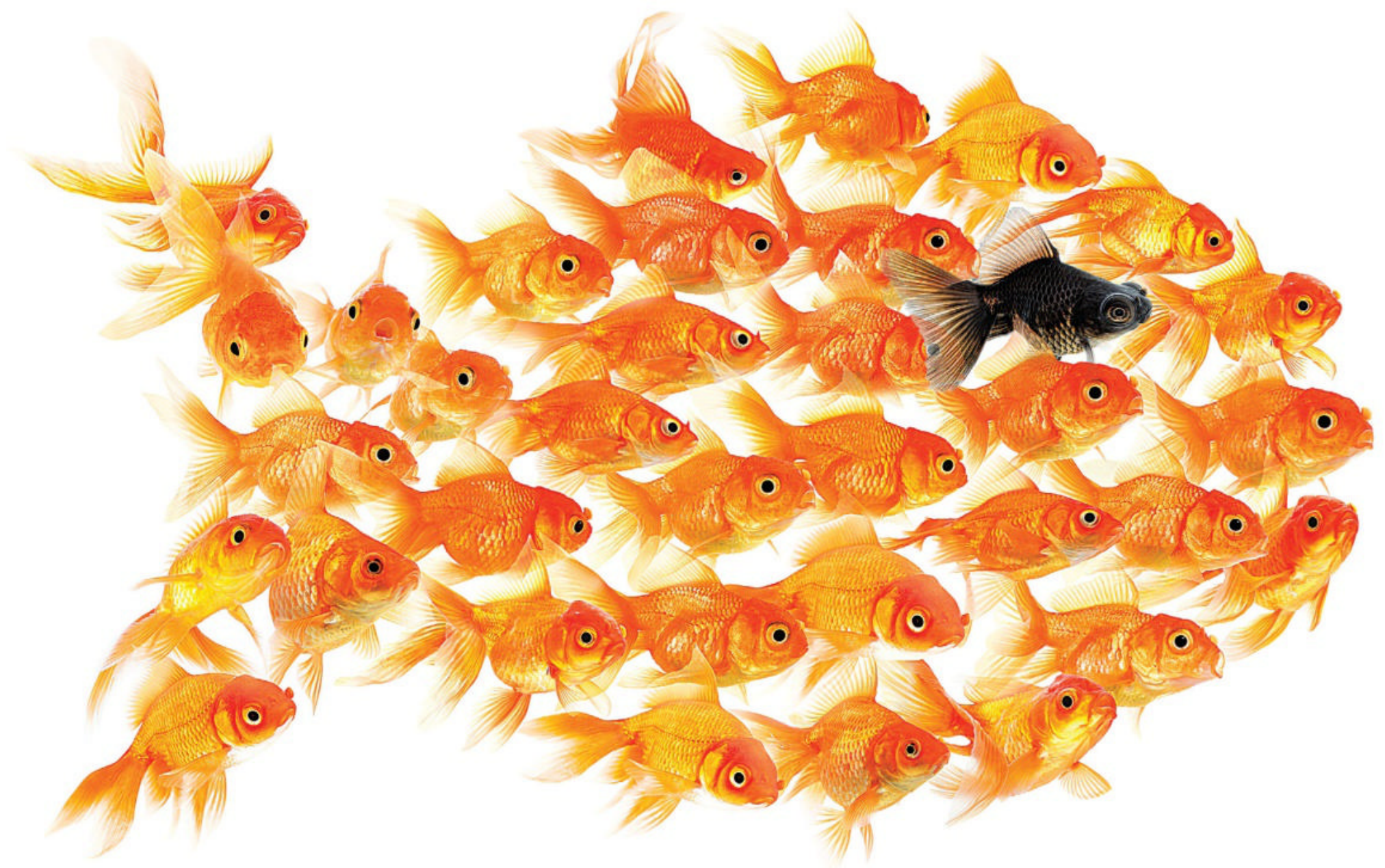
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Up the Chain of Command

HBR.ORG
January–
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2022



Build a Leadership Team for Transformation

Your organization's future depends on it 60



IN THE NEW PROJECT MANAGEMENT

The deadline beginning.

Chuck Mihaliak

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“Digital disruption is real, of course, but it has been oversold by three myths.”

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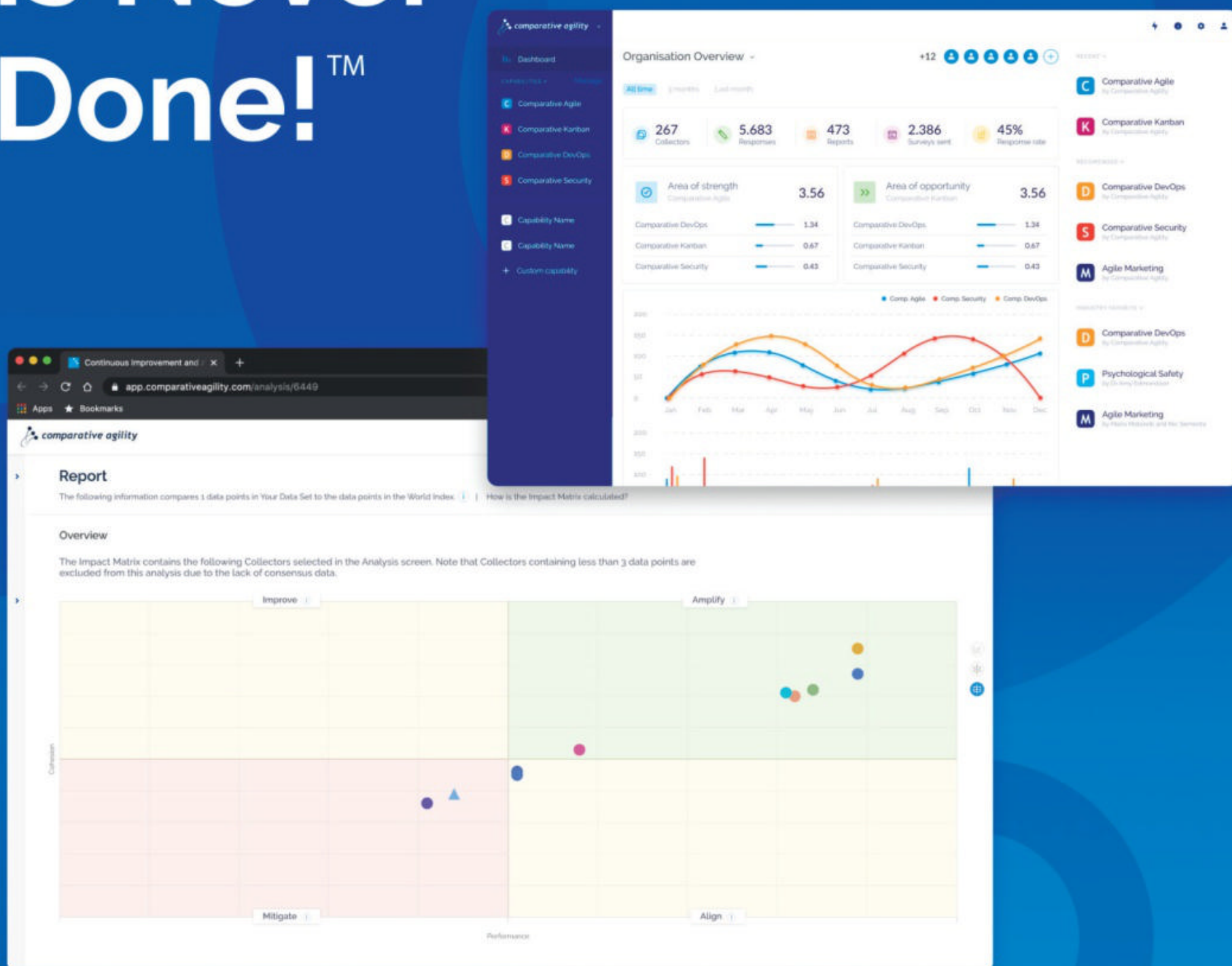
“Success comes to those who take large, early bets on new markets but remain agile.”

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a Century of
Change



THIS YEAR MARKS the 100th anniversary of the first issue of *Harvard Business Review*. Few magazines last so long, and we're proud of our longevity. But like most big birthdays, this one also provides an opportunity to reflect on how we've changed.

In the decade since I wrote in our 90th anniversary issue, we've launched new podcasts, online video series, and email newsletters; redesigned our magazine and website several times, and unveiled monthly and premium subscription plans—a stream of innovations that have helped us attract close to 350,000 subscribers.

These innovation efforts are an example of how we're adapting to digital disruption—not coincidentally the theme of this issue's Spotlight package. There you'll find the results of research on which industries are most susceptible to disruption (fewer than you think), how companies can turn

their legacy status into an advantage, and how leaders can persuade colleagues to change before disruption becomes unstoppable.

We'll be celebrating our centennial later in the year in the magazine, on our podcasts, with articles on HBR.org, and at an event next fall. As we mark this milestone, we're grateful to our subscribers, whose loyalty to the magazine and our product innovations allows us to continue finding ways to help organizations operate more efficiently, more ethically, and more humanely.



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beginning in October 1922



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Sarah Federman was an advertising executive in Paris in 2008 when she came upon a memorial listing the names of Jews who had been transported by the French National Railways to concentration camps during the Holocaust. One of the names was Sarah Federman. “It brought home to me that I could have been one of the victims,” she recalls. She left her job to study the role of businesses in mass atrocities. Now an assistant professor at the University of Baltimore, she explains in this issue how long-standing companies with troubled pasts can make amends.

82 How Companies Can Address Their Historical Transgressions



When **Ethan Burris** was a graduate student, his spouse worked for a boss who never seemed to listen to subordinates. Burris saw how innovative ideas languished and problems continued to percolate, even though they could have been addressed. Now a professor at the University of Texas, he studies that dynamic. In this issue he offers advice on how employees can ensure that their voices are heard.

139 How to Sell Your Ideas Up the Chain of Command



In a career spanning government, corporations, and law, **Leo E. Strine** has seen first-hand the relationship between money and politics. In this issue he and his coauthor, Dorothy S. Lund, Strine’s former law clerk and now an associate professor at the University of Southern California, argue that the current system distorts policy making, unleashes a flood of illegitimate spending, and distracts executives to the detriment of their companies. They urge corporate leaders to focus on business and restrain political giving with the goal of eliminating it entirely.

130 Corporate Political Spending Is Bad Business



Sandeep Puri, a professor at the Asian Institute of Management, first heard of Laxmi Narayan Tripathi, a transgender rights activist and actress, in 2011. Eight years later a friend sent him a YouTube video of Tripathi describing the company she’d cofounded to give transgender people access to jobs. Intrigued by how she had used a cause to create a differentiated brand, Puri coauthored a case on the company for his marketing classes. His fictional version of the case, which appears in this issue, is set in the Philippines, where he lives and teaches.

144 Should You Compromise Your Founding Principles for Faster Growth?



Dinesh Boaz was born in Chennai, attended Rutgers University, and worked as a music producer in New York before becoming a photographer. His specialty: aerial photography from an open-door helicopter. “I work with the pilot to coordinate my placement and view over each location,” he says, “using altitudes and sharp bank turns to achieve the camerawork I seek.” In his photos in this issue, Boaz purposely removed all elements of nature to “emphasize the mighty turbo engines, the hairpin turns, and the inherent danger of race car driving.”

102 Manage Your Organization as a Portfolio of Learning Curves

Why Your Board Needs Automation on Its Agenda

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

Intelligent process automation (IPA) is emerging from the back office to help enterprises achieve adaptive, resilient, and efficient operations that deliver seamless experiences for customers and employees.

Exponential Growth

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

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

And significant opportunities for transformation exist across all industry sectors.

Humans First

Several years ago, automation's hype skyrocketed. Both advocates and critics fervently debated its merits, with visions of multifold productivity increases in

a world ruled by robots. Since then, the leading enterprises that have implemented automation at scale have proved that a mindful, human-centric approach is superior—and possible.

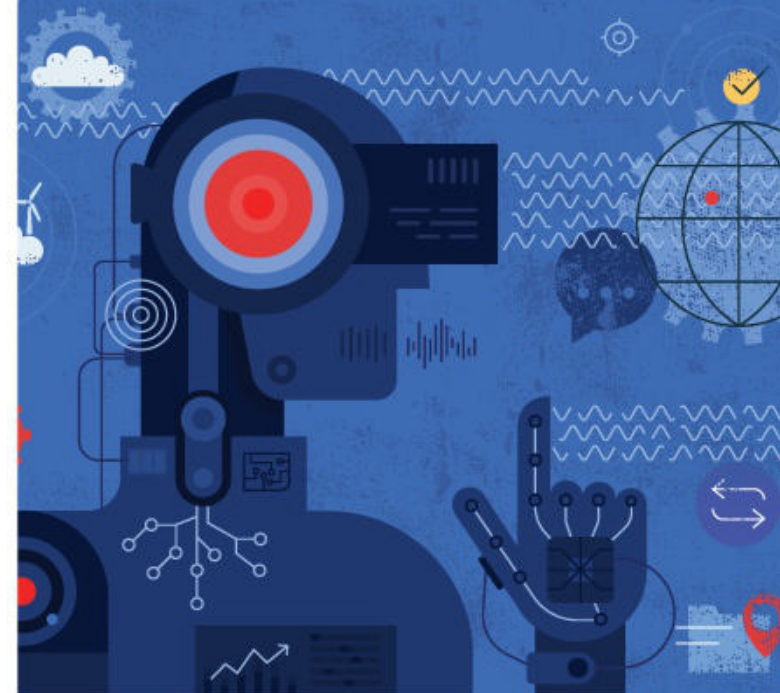
At its best, automation makes jobs more human, not less. Amazon's multiyear automation program Hands off the Wheel elevated its employees' roles and responsibilities by alleviating workers' focus on speed and volume and freeing them to imagine and innovate—all while increasing productivity. Successful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

A Powerful Competitive Advantage

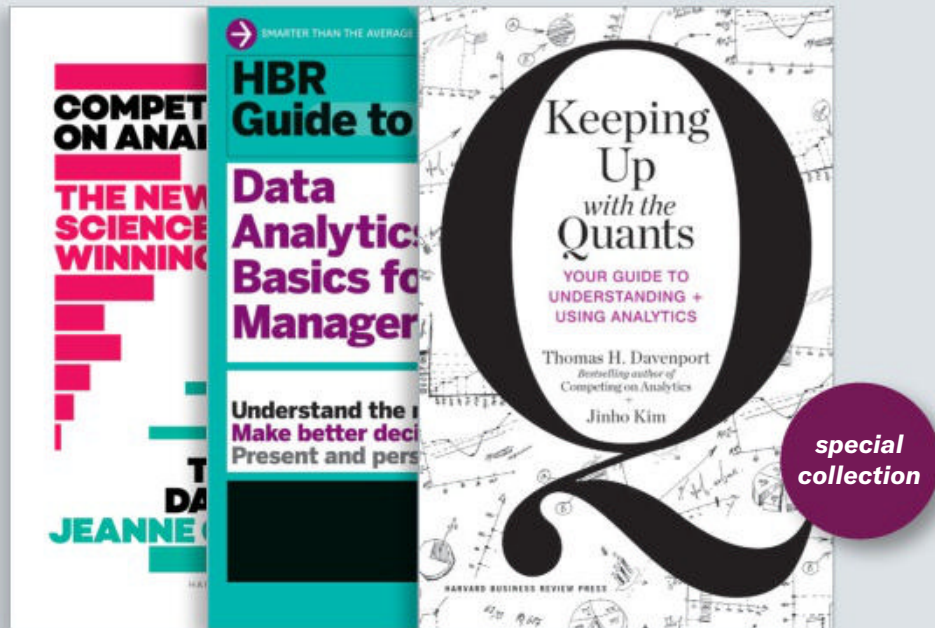
In October 2021, Forrester predicted that companies with advanced automation programs will “obliterate—not merely beat—the competition.” And organizations are paying attention; more than 60% of enterprises are trialing or have at least partially implemented automation, according to new research by Cognizant's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

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

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



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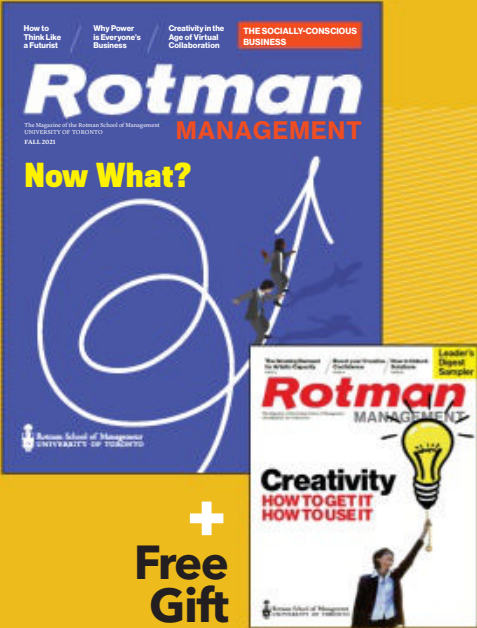
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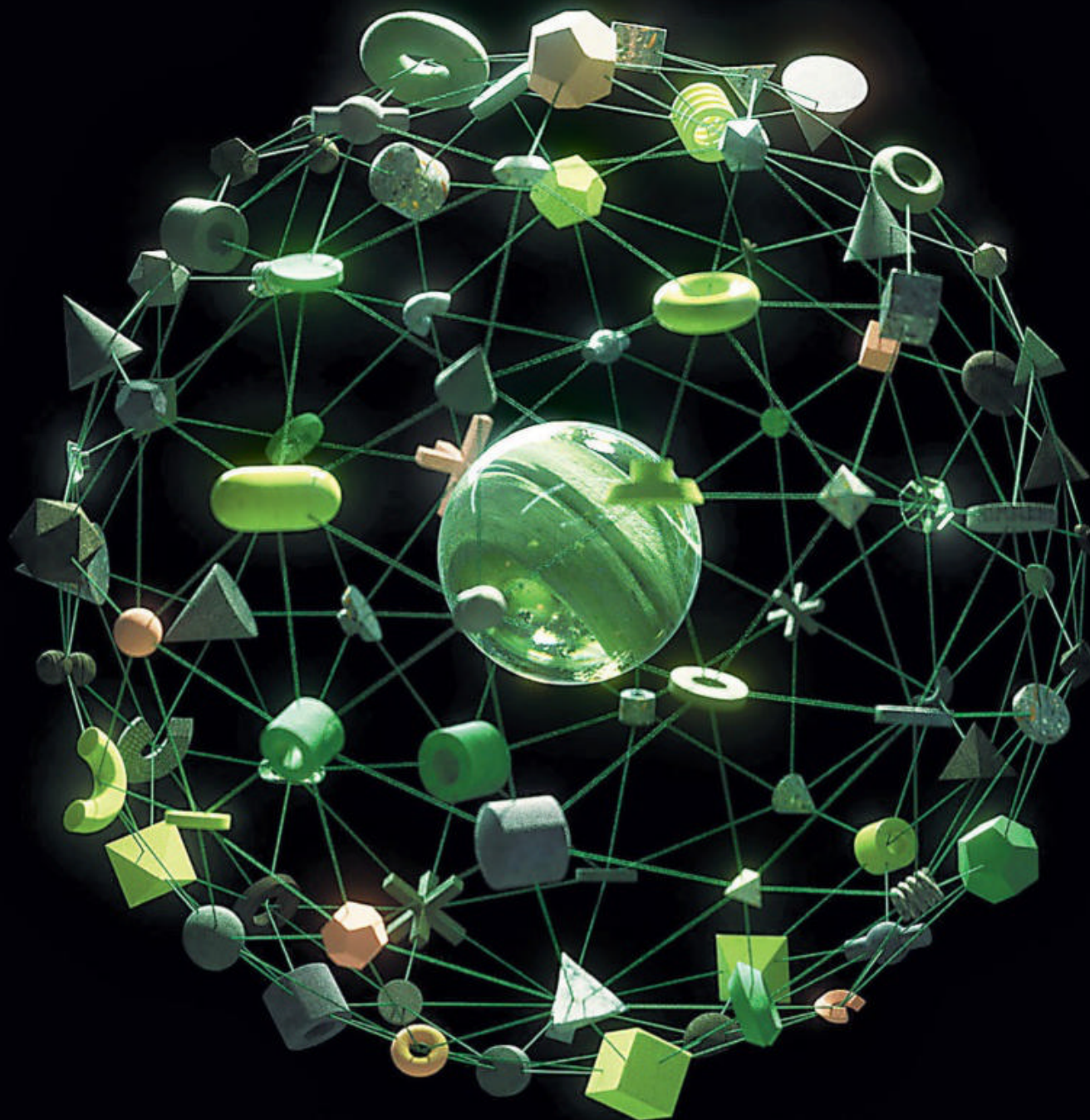
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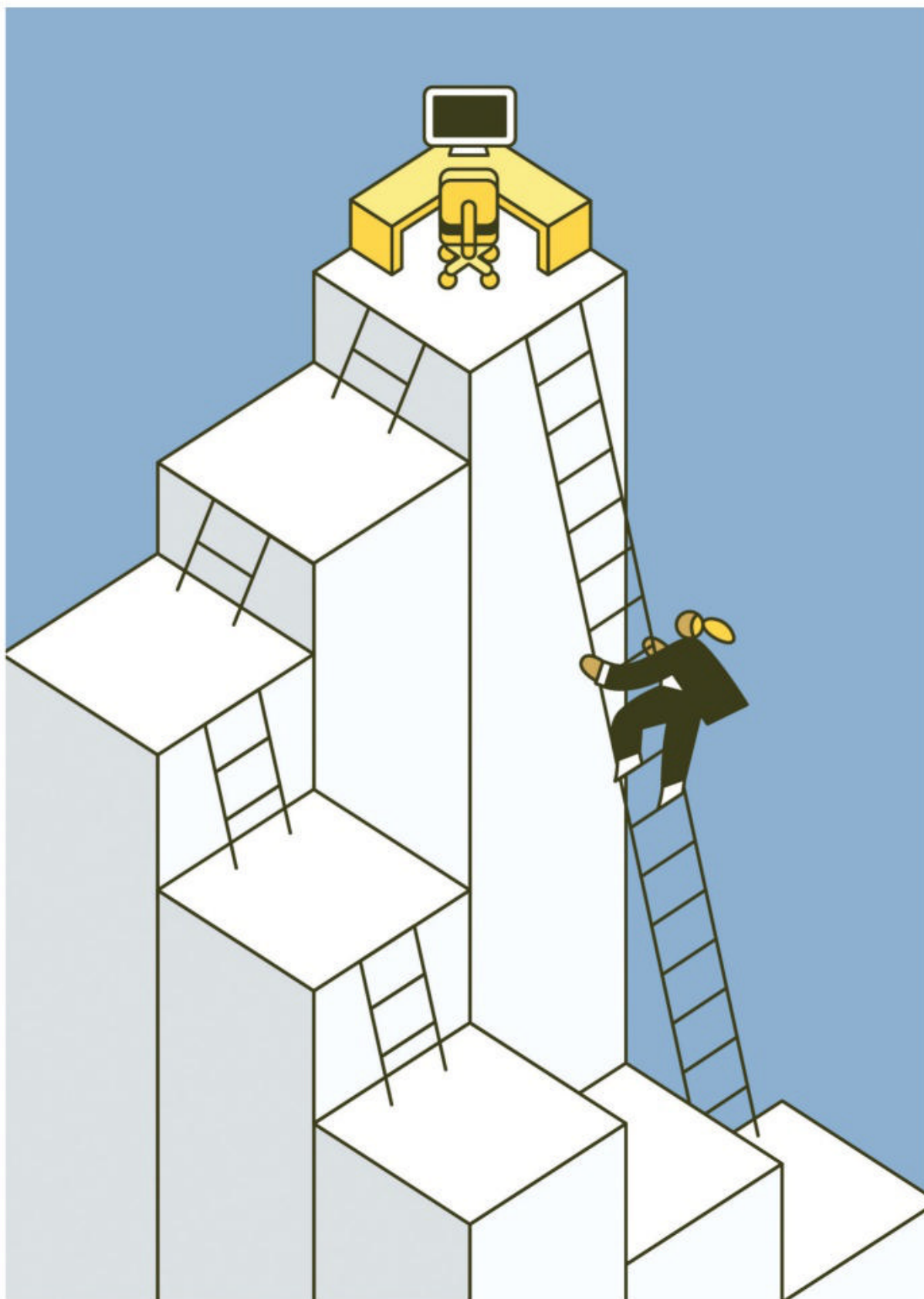


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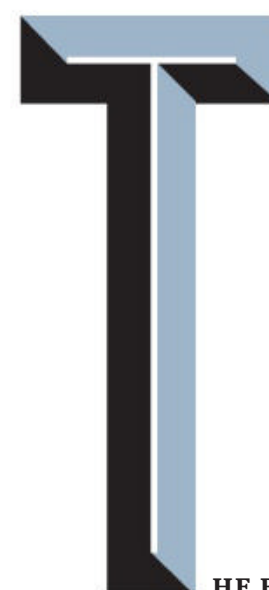
Finding the Right CEO

The most promising candidates in your company may not be where you expect.



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New Research and
Emerging Insights



THE BEST

STEPPING-STONE to the corner office is changing. The vast majority of new CEOs still come from within: For example, in 2020, 77% of new S&P 500 CEOs were internal promotions. But whereas 20 years ago chief operating officers were the overwhelming favorites, accounting for 76% of such appointments, they have lost significant ground and look to be overtaken soon by another group of aspirants: division heads. According to a new study, however, neither cohort is the most likely to deliver outstanding results. “Leapfrog CEOs”—leaders appointed from one level below C-suite officers or division heads, with titles such as senior vice



IdeaWatch

president and general manager—have the best odds of steering their firms into the top quartile of performers.

A NEW FOCUS ON COMPLEXITY AND OPPORTUNITY

As part of a large ongoing study of CEOs, researchers from the executive recruiting and leadership advisory firm Spencer Stuart analyzed every CEO succession in the S&P 500 since 2000. The waning numbers of COOs tapped for the top job reflect changing strategic priorities, they say. “The role of COO was popularized in the 1990s as a result of management trends around quality—*kaizen*, total quality management, Six Sigma, and so on, when the leadership emphasis was on operations,” explains Claudius Hildebrand, the head of CEO data and analytics at Spencer Stuart and a coauthor of the study. But in recent years companies have become flatter, and power has moved from functions to business units. What’s more, boards have come to prioritize experience running a full P&L. “Divisional leadership positions combine the benefits of managing complexity with the experience of spotting opportunity and market trends,” Hildebrand says.

In 2020—the last full year for which data is available—chief operating officers accounted for 38% of new CEOs in the S&P 500. Division heads were only two percentage points behind them, at 36%. Chief financial officers were next, at 9%. CFOs appeal to boards that want to ensure continuity, because they often serve as right hand to the CEO. Leapfrog candidates—the final group with significant representation in the



study—accounted for roughly 5% of new chief executives.

Having identified where successors came from, the study looked at company performance after they assumed the CEO role. The researchers sorted the executives into quartiles based on their company’s market-adjusted total shareholder returns. The least-common choice, the leapfrogs, had the highest share of CEOs in the top quartile for performance: 41%. Former division heads and COOs were next, at 27% and 25%, while the share of CFOs in the top quartile of performers was only 8%. Leapfrogs were also less likely than CFOs—ostensibly a safer pick—to end up in the bottom quartile, despite their lack of C-suite experience. The patterns

were consistent after controlling for industry differences as well as organizational and market attributes and for pre-Covid performance.

Although the researchers didn’t quantitatively analyze reasons for leapfrogs’ superior performance, they have some theories based on follow-up interviews and their consulting experience. In assessing candidates—even at the CEO level—it’s often better to value skills and ability over experience, they contend. “When directors choose a leapfrog, they are choosing potential,” says Robert Stark, a colead of Spencer Stuart’s CEO succession advisory services and a contributor to the study. “They are betting that the candidate has the capacity to do much more than



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they've already demonstrated. It speaks to what sort of game you're playing as a board: Are you playing to win, or are you playing to not lose?"

This isn't to say that boards should elevate only leapfrogs. "We could point to highly successful CEOs from every role," Stark emphasizes. "Each CEO succession is different." Instead, the study's findings indicate that boards should build relationships deeper down in their organizations—something few have traditionally done. Indeed, a 2014 study by the Conference Board, the Institute of Executive Development, and Stanford's Rock Center for Corporate Governance found that most board members lack detailed knowledge of the skills, capabilities, and performance of executives even one level below the CEO. Only about half of the directors surveyed reported understanding the strengths and weaknesses of those executives very well or well. And rarely—in just 7% of companies responding—was a board member formally assigned to liaise with them. Talent further down in the organizations gets even less attention. "Boards need to be actively participating in their organizations' talent development process," Hildebrand says. "They need to know the unlikely candidates just as well as the likely candidates and expand their consideration set of potential CEOs."

The researchers believe that a more expansive approach to the succession search could benefit firms in another way: by boosting their diversity, equity, and inclusion efforts. Minorities and women are badly underrepresented in all four of the main CEO stepping-stone roles, but they are more common at the leapfrog level.

GETTING TO THE NEXT LEVEL

Finally, the researchers hope their work will help executives as they develop the capabilities and experience needed for the top job. After conducting a meta-analysis of 100 CEO aspirants, the study identified development opportunities for leaders in each of the stepping-stone roles: COOs can best position themselves for success by building a following across the organization and being more visibly present to the broader workforce, and division heads should expand their vision and understanding of the business at the enterprise level by, for instance, volunteering for companywide projects. CFOs will probably benefit from gaining operating experience outside finance, while those in leapfrog positions should seek exposure to analysts, investors, board members, and other external stakeholders.

Ideally, firms' talent-development process would provide such opportunities, says Seonaid Charlesworth, a Spencer Stuart consultant and one of the study's coauthors. "In reality," she adds, "CEO aspirants may need to seek them elsewhere, by making lateral moves inside or even outside the firm if they feel blocked in their current role." For the time being, heading up a corporate division is most likely to put a candidate in a prime position to become CEO. 

HBR Reprint F2201A



ABOUT THE RESEARCH *"The Last Mile to the Top: Future CEOs Who Beat the Odds," by Claudius A. Hildebrand, Robert J. Stark, and Seonaid Charlesworth (white paper)*

IN PRACTICE

"It's Easy to Play Defense with Such a High-Stakes Decision"

Lucien Alziari is the chief human resources officer at Prudential Financial. He has been closely involved in CEO selections at three global companies, including the 2018 appointment of Charles Lowrey at Prudential. Alziari recently spoke with HBR about the succession process. Edited excerpts follow.

Spencer Stuart research suggests that leapfrog CEOs—people promoted from one level below the C-suite—outperform, but they make up a minority of CEO appointments. Should more of them be named to the role?

I'd be cautious with that conclusion. Many boards do not consider leapfrog candidates to begin with, so candidates have to be truly exceptional to even be part of the process. And selection bias might be skewing the success rate when compared with other launchpad roles. But the data offers a good reminder

to boards not to become too risk-averse with CEO choices. It's very easy to look for reasons to disqualify a candidate, such as lack of experience, rather than to focus on the towering strengths that might make somebody a differentially better choice. It's easy to play defense and forget about offense with such a high-stakes decision.

Divisional leaders are set to overtake COOs as the most common choice for CEO.

Why is that?

For a while execution was the priority for CEOs, but in recent years the need for strategic leadership has been reemphasized. With the dislocation caused by the financial crisis and now the pandemic, CEOs are having to ask existential questions about their firms and how they will survive and prosper in a changing environment. People who come up through the ranks as business operators—COOs—don't typically have all that in their DNA.

What was Charles Lowrey's profile before becoming CEO?

Charlie fit the divisional CEO mold. He ran Prudential's international businesses and before that the domestic and asset management businesses. He reported directly to the chairman.

Division heads are really micro versions of a corporate CEO. They don't have some of the external obligations that a corporate CEO has, but they face all the strategic challenges of running a large, complex business. They're also managing execution, culture, and talent. It's a pretty good test of what you want in a corporate CEO.



Will you draw on the research's findings in the next CEO search that you participate in?

They are certainly helpful. Of course many other factors are important in addition to each candidate's current role. By the time executives get to the last launchpad before becoming CEO, they're the product of years of development by the company along

with their own self-development and maturation.

What would you advise the board to look for when the time comes?

It depends on the role and the circumstances. But one thing that is top of mind for me now is the stronger public profile of CEOs. They increasingly need

to be the voice of the company; they are required to comment publicly on broad social issues and navigate hot-button political issues, bringing employees along with them while satisfying other stakeholders.

You can't do any of that without a combination of strong communication skills and personal empathy. ☺



IdeaWatch

FINANCIAL PROFESSIONALS, BEWARE THE FIRST-IMPRESSION BIAS

Equity analysts' initial perceptions of a firm skew their forecasts and recommendations for as long as two years when their view is positive and six years when it is negative. "First Impression Bias: Evidence from Analyst Forecasts," by David Hirshleifer et al.

MARKETING

Bridging the Generational Divide

Marketers are often older than the audiences they are trying to reach, making it a challenge to connect. A new study examines the marketing generation gap and suggests some ways to narrow it.

The researchers surveyed more than 1,300 Swiss marketing managers, young consumers (ages 13 to 30), and social media influencers. Among the findings: Some 76% of the consumers surveyed considered Instagram the most important social media platform—but only 28% of the marketing managers did. Eighteen percent of the marketers believed that Facebook carries a good deal of weight among the young, only 2% of whom agreed. When asked about the influencer who could most effectively connect with young people, the marketers favored Roger Federer, with 34% saying they would sign him on. Were they to do so, they would probably reap scant rewards: When asked the same question, fewer than 1% of young

consumers named the tennis star. And whereas marketers reported trying to reach people through subjects such as real estate and education (cited by 30%) along with sports, economics, health, and electronics (about 20% each), influencers are more interested in posting about travel (63%) and fashion, food, and beauty care (about 40% each)—topics also favored by the young.

Marketers are eschewing the quantitative tools that could help them target their messages, the researchers say, noting that 82% prefer qualitative assessments. "[Companies] interested in correcting this misalignment should offer managers incentives to improve key numerical performance indicators such as changed brand perception, newly generated leads and revenues, or altered customer retention," the researchers write. "Another effective measure would be to implement a 'shadow committee' of young advisers, which would prevent marketing managers from being out of step."

 **ABOUT THE RESEARCH** "Swiss Influencer Marketing Report 2020," by Melanie Clegg et al. (white paper)

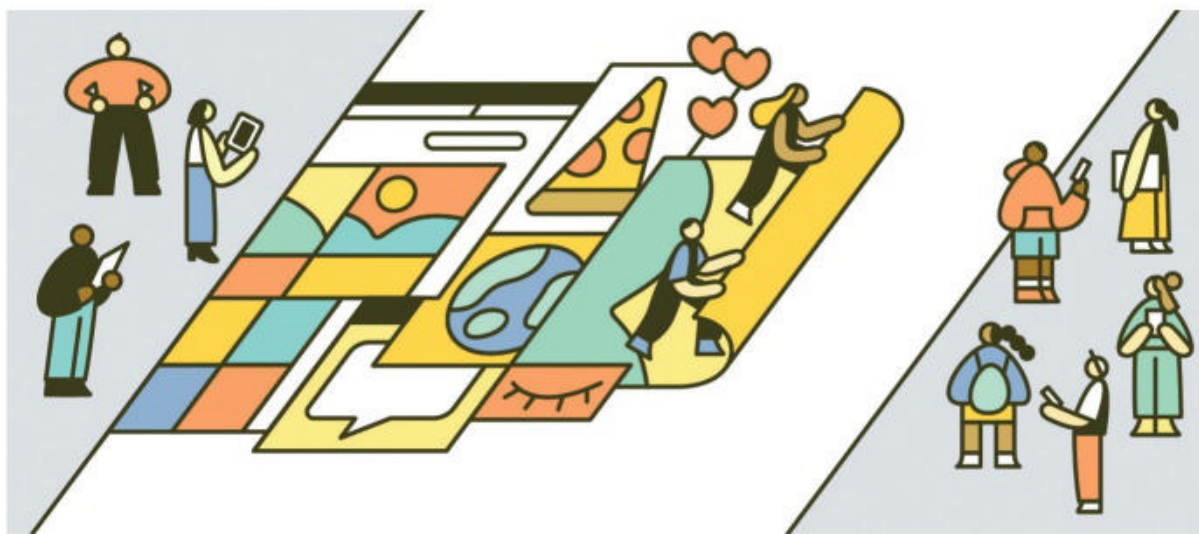
COPING WITH UNCERTAINTY

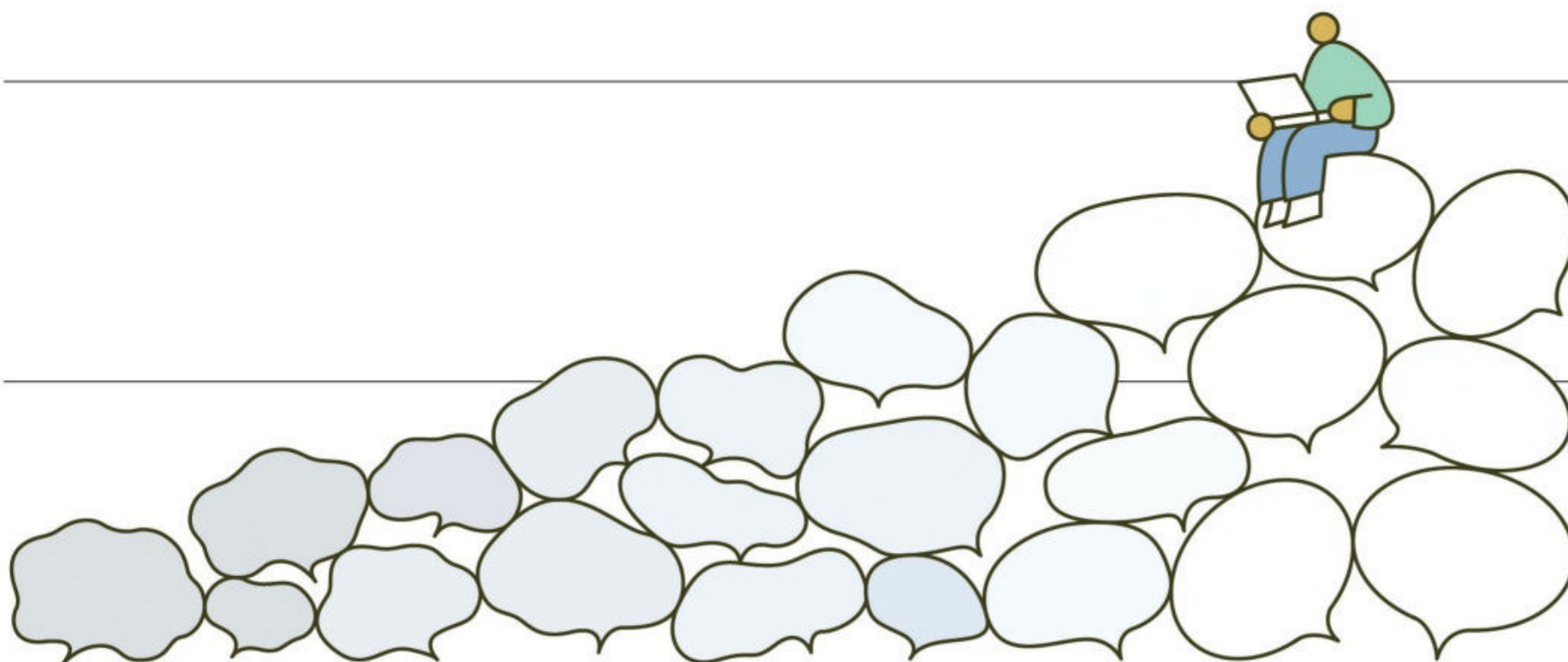
It's Never Too Early to Seek a Silver Lining

It's no secret that looking for the good in a sorry turn of events can bolster well-being. Researchers wondered: What if the benefit-seeking process happens *before* the bad news arrives?

Across four studies, people awaiting important news handled disappointment better if they spent part of the wait considering upsides should results fall short. In the first study, the researchers surveyed 150 recent law school graduates about the extent to which they envisioned positive consequences, such as growing as a person, should they fail the bar exam. Among those who did fail, engaging in more "preemptive benefit finding" led to more-positive emotions upon receiving the bad news, and they reported less-negative emotions while awaiting their scores. Subsequent studies looked at people's anticipation of and reactions to political elections and health-risk assessments, with generally similar results. Seeking a silver lining "is advantageous even before news arrives," the researchers write. "[It] boosts emotional well-being while waiting, buffers the blow of bad news, and does not consistently undermine joy in response to good news."

 **ABOUT THE RESEARCH** "Preparing Silver Linings for a Cloudy Day: The Consequences of Preemptive Benefit Finding," by Kyla Rankin and Kate Sweeny (Personality and Social Psychology Bulletin, 2021)





CUSTOMER SERVICE

A Small Linguistic Change Boosts Satisfaction and Sales

Frustration with customer service interactions is rife, and companies go to great lengths to improve the service experience. In the United States alone, they spend more than a trillion dollars a year on recruitment and training to that end. There may be a simpler fix.

Across two field studies and three experiments, researchers showed that customers are more satisfied and willing to purchase when employees use concrete terms (“shirt” instead of “top” or especially “item,” say). First the team analyzed nearly 200 recordings of customer service calls and follow-up surveys at a large U.S. online apparel retailer, using natural-language processing to measure the rep’s level of concreteness in each conversation. A one-standard-deviation increase in concreteness was associated with a nearly 9% increase in satisfaction. Subsequent studies showed that the effect held for email interactions and was correlated with actual spending. It occurred because people believed that the use of concrete language meant that reps were truly listening to them.

In the final experiment, when reps used concrete language that was irrelevant to the customer’s query—confusing a dress the person was returning with a shirt she was buying, for instance—participants correctly perceived that they were not being heard or understood, and no bumps in satisfaction or purchase intent took place.

Even small alterations—as little as a single word added or changed—improved customer responses, the researchers emphasize. “This relatively subtle approach to signaling attention and understanding may be particularly valuable given [that] consumers often assume employees are trying to manipulate them” when making extra efforts to engage, the researchers write. “Using more concrete language seems less likely [than other tactics] to backfire....It is unlikely to receive as much conscious attention [or] to be seen as intended to flatter, ingratiate, or persuade.” Encouraging employees to speak concretely, they add, could improve actual employee listening, because it requires that they really heed the customer’s words.

ABOUT THE RESEARCH “How Concrete Language Shapes Customer Satisfaction,” by Grant Packard and Jonah Berger (Journal of Consumer Research, 2021)

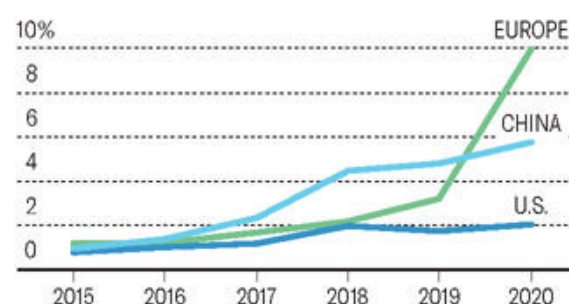
ELECTRIC VEHICLES

Who’s Saying Goodbye to Gas?

The fastest growth in electric vehicle sales in recent years has been in Europe, where EVs now account for 10% of all new car sales.

EV Market Share

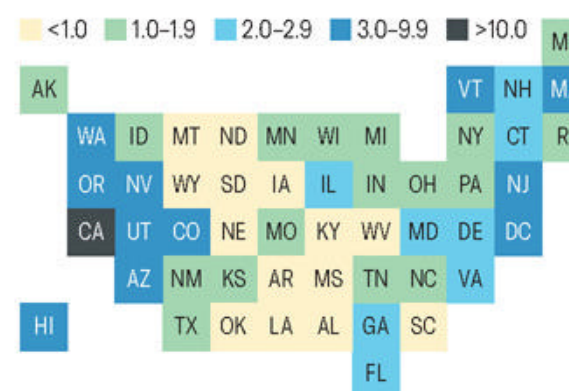
All-electric, plug-in hybrid, and fuel cell vehicles.



Within the United States, California leads in EV ownership, with nearly 11 registrations for every 1,000 residents.

EV Registrations in the U.S.

All-electric vehicle registrations per 1,000 people, through June 2021.



Sources: Pew Research Center, U.S. Department of Energy U.S. 2020 Census



IdeaWatch

COMMUNICATION

Modesty Can Backfire

For many of us, getting word of a personal achievement poses a dilemma: Should we share our good news, or should we keep it to ourselves, lest others feel envious or threatened? A new study provides guidance.

Across seven experiments, the researchers found that hiding success exacts steep interpersonal costs. In one of the experiments, participants were asked to imagine the following scenario: They and their close friend “Alex” were applying for teaching jobs at the same universities. One day they learned that Alex had been invited to give a talk at one of the schools as part of the application process, and they later asked him if he had any job-search updates. Half the participants were then told that Alex shared his good news; the other half were told that he concealed it. Those in the latter group reported feeling less close to and trusting of Alex and were less likely to say they would cooperate with him in the future. Their reactions sprang from the belief that Alex was acting paternalistically, which participants found insulting.

Other experiments showed that the pattern held in public as well as private settings, in response to direct and indirect questions, and in a variety of relationships including with family, colleagues, and romantic partners. Those who hid success were perceived as more modest than those who shared it, but they were also seen as less competent and less warm. “Communicators are not



wrong to believe their success will elicit envy...[but they] may not appreciate that targets can feel both envious and genuinely happy for others’ success,” the researchers write. “Even if it feels uncomfortable for the communicator, sharing success is better for preserving one’s relationship.”

 **ABOUT THE RESEARCH** “*Hiding Success*,” by Annabelle R. Roberts, Emma E. Levine, and Ovul Sezer (*Journal of Personality and Social Psychology*, 2021)

COMPENSATION

For Love and Money

Numerous studies have shown that employees who view their work as a calling tend to do better on subjective measures, such as work and life satisfaction, than those for whom a job is chiefly a means to a paycheck. New research finds gains in objective terms too.

The researchers began by analyzing data from the Wisconsin Longitudinal Study, which collected information on thousands of high school graduates over many years. Those who described their work as a calling in 2004 earned more than others that year, after various demographic, socioeconomic, and

employment-related characteristics were accounted for, and the pattern held when participants were surveyed again in 2011.

To test causality, the researchers created three videos in which a hypothetical employee spoke of his work as being a calling or a job or indicated no particular orientation. Signs of other workplace behaviors, such as commitment, passion, positivity, and performance, were held constant. Participants were randomly assigned to watch one of the videos before answering questions about what kind of bonus and raise “Sam” should receive and whether he should be promoted. Those who observed the calling-oriented Sam were far more likely than the others to award a hefty bonus. They gave him higher raises than people gave to the job-oriented or the neutral Sam, and they were more likely to recommend him for promotion.

Analysis showed that the heightened rewards resulted from perceptions that the Sam who saw his job as a calling was a better performer and was more committed to the organization—even though the videos depicted the same level of performance and conveyed no information about commitment. “[A] calling orientation relates positively to objective career success...not

THE WAGES OF ENTREPRENEURSHIP

Five years after returning to paid employment, former founders in Belgium earned 27% less, on average, than comparable other employees—partly because they chose to work less, and partly because they were paid at lower rates owing to poor expectations about their fit and productivity. “The Long-Term Consequences of Entrepreneurship: Earnings Trajectories of Former Entrepreneurs,” by Jeroen Mahieu, Francesca Melillo, and Peter Thompson

necessarily because calling-oriented employees demonstrate better job performance, but because they are misperceived by managers as having better performance and stronger organization commitment,” the researchers write. Those unfounded impressions can also have negative effects, they caution. “Managers might expect calling-oriented employees to maintain positivity in the face of setbacks; when they do not, these employees might experience worse backlash than job-oriented employees,” they say. Managers might be more receptive to their suggestions than to those made by employees whom they don’t see as calling-oriented, they add, “even when their suggestions contain similar substance.”

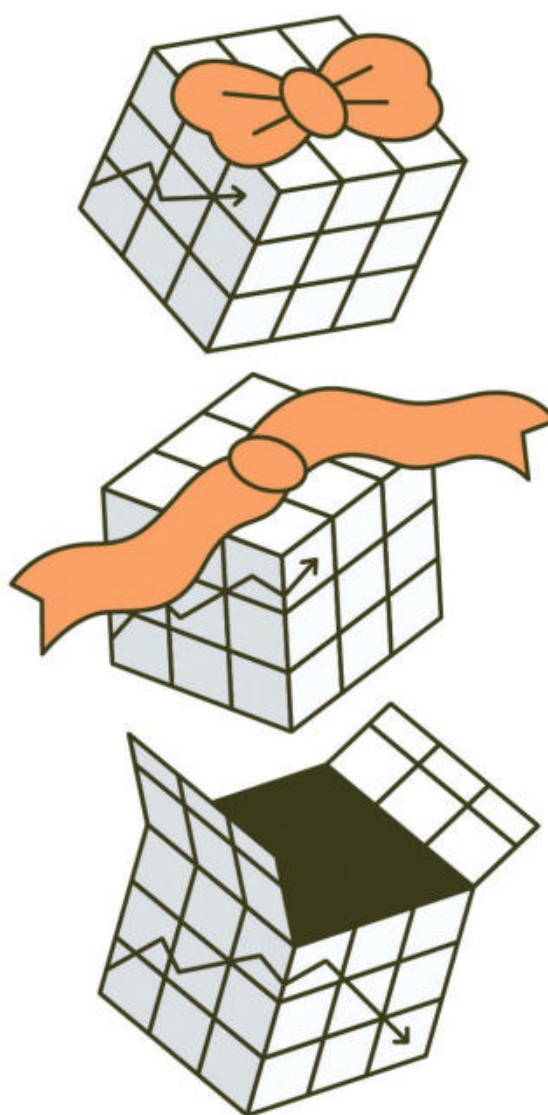
 **ABOUT THE RESEARCH** “If You Do What You Love, Will the Money Follow? How Work Orientation Impacts Objective Career Outcomes via Managerial (Mis)perceptions,” by Yuna Cho and Winnie Y. Jiang (Academy of Management Journal, forthcoming)

CORPORATE MISCONDUCT

The Hidden Problem of “Insider Giving”

Insider trading—the illegal practice of using confidential information to buy or sell stock—carries harsh penalties and is vigorously prosecuted. New research looks at a related misdeed that generally flies under the regulatory radar: insider giving, whereby those with privileged access donate stock to charities using nonpublic information to time their gifts for maximum advantage.

The researchers examined all donations of common stock made by large external shareholders of U.S. public companies from 1986 to 2020—nearly 10,000 gifts in all, worth about \$50 billion. They focused on this group rather than on company executives to test their theory that insider giving is far more widespread than is generally believed (an earlier study by some of the researchers documented the phenomenon among corporate officers and directors). They found that the price of donated stock rose, on average, by about 6% more than the market overall in the year before the gift was made and fell by about 4% more in the year after, with



the highest price typically occurring close to the day of the gift. The donors thus avoided paying capital gains tax on the appreciated stock (securities donations are exempt) while maximizing the value of both the gift and their concomitant tax deduction—and, of course, ridding their portfolios of soon-to-be-devalued shares.

These impeccably timed gifts “are almost certainly not the result of luck,” the researchers write, pointing out that open-market trades of common stock by large shareholders show no such pattern. Their analysis suggests that two mechanisms are in play: Executives are leaking privileged information, and large shareholders are successfully pressing firms to alter the timing of important company announcements. A third tactic, requiring no special access, is backdating: Because donors can wait as long as 410 days to report a gift (as opposed to two days to report an inside trade), they can cherry-pick the date to maximize their advantage. Singly or together, the strategies can “leave the donor wealthier than if they never made a gift,” the study concludes.

Noting that “insider giving tends to harm the stock market in exactly the way that insider trading does,” the researchers call for reforms. The Securities and Exchange Commission should make gifts subject to the same prohibitions and reporting requirements as sales, they say, and the tax code could be amended to require that donors pay capital gains taxes when gifting stock.

 **ABOUT THE RESEARCH** “Insider Giving,” by S. Burcu Avci et al. (Duke Law Journal, 2021)



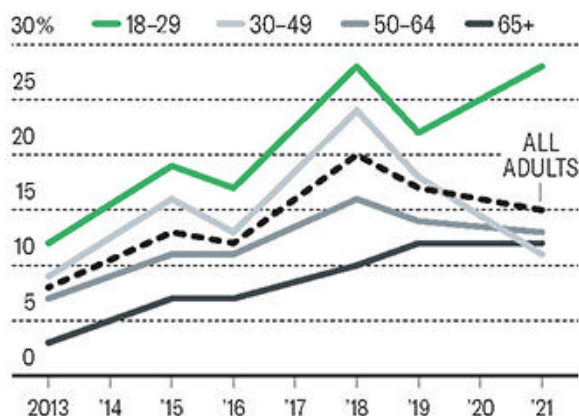
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MOBILE TECHNOLOGY

Cutting the Cable

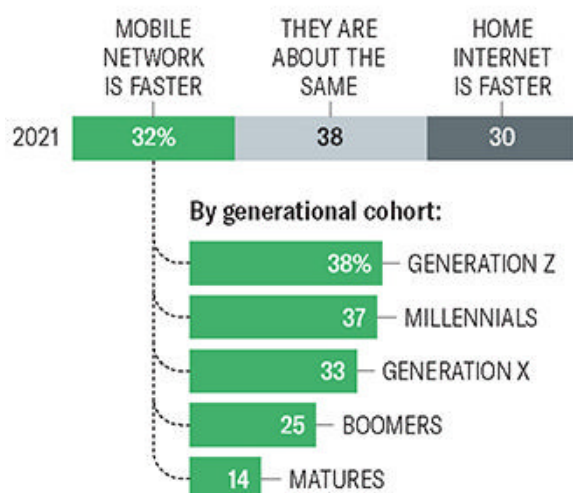
Could the ubiquity of smartphones pose a threat to home-broadband providers? Some 15% of U.S. adults rely solely on their mobile data plans for internet access, either using their phones or setting up mobile hotspots—and the trend is accelerating sharply among the young.

Share of U.S. adults who own a smartphone and do not use broadband internet at home, by age:

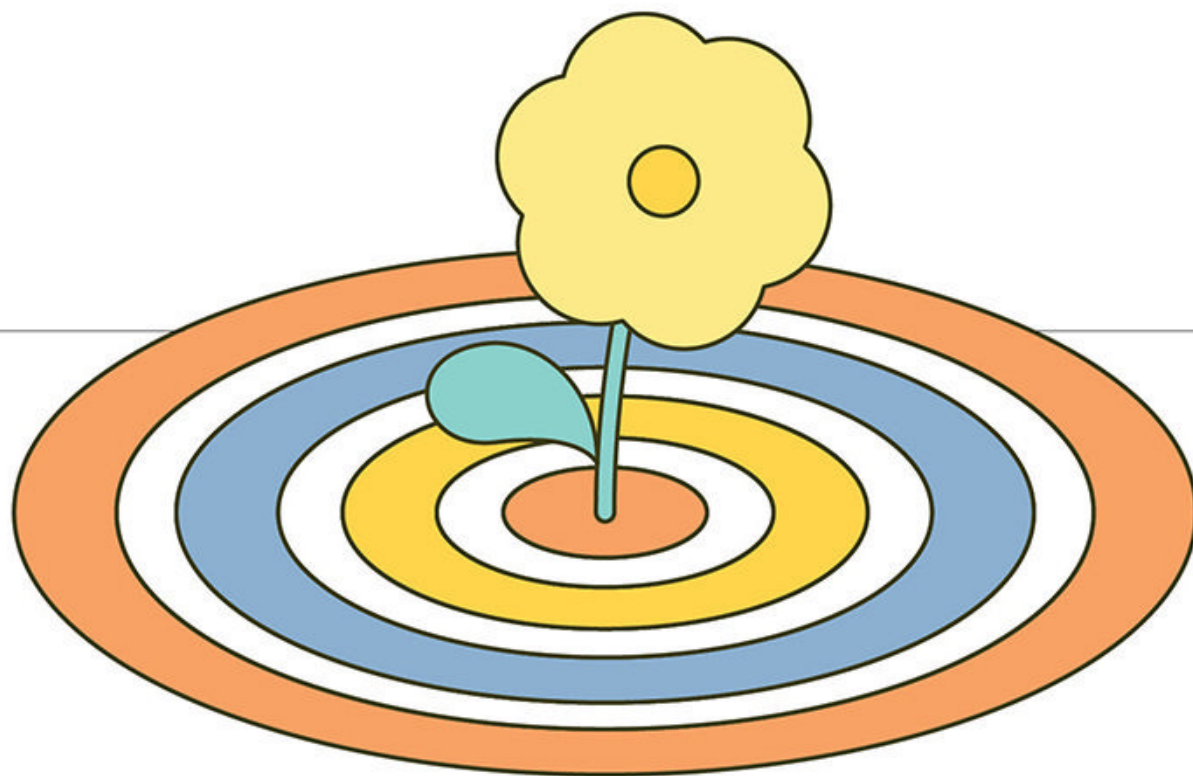


One reason for the shift: Many consumers, especially young ones, see no appreciable difference in performance between their mobile phone and home internet connections. That share could grow as more wireless networks are upgraded to faster 5G technology.

When asked about the relative speed of their mobile networks and their home internet, the share of respondents who say:



Sources: Pew Research Center; Deloitte Insights



SUSTAINABILITY

A Double Threat to CSR

Studies have shown that CSR activities are suppressed by an average of nearly 25% after a firm is targeted by an activist hedge fund; such investors are typically interested in boosting short-term profits and view sustainability efforts as counter to that goal. Now research finds that a high level of CSR activity makes a firm more likely to be targeted in the first place.

The researchers identified 506 U.S. firms that were targeted by activist hedge funds from 2000 to 2016 and 1,106 similar but untargeted firms. They analyzed accounting, financial, and investor holdings data; transcripts of earnings calls; and CSR scores, and controlled for variables including firm size and ownership structure. They found that the higher a firm's CSR score, the greater the odds that it had been targeted. For example, a firm whose sustainability score was two standard deviations above the mean was almost twice as likely to be targeted as firms with average scores. Hedge funds see high levels of CSR activity as a signal that a firm is wasteful and ripe for

cost-cutting, the researchers say—and with proxy contests carrying a price tag of \$12.5 million, on average, “any factor that increases a firm’s probability of being targeted...is consequential.” The effect was heightened among firms that used vague language in their financial communications, presumably because the funds had less concrete information to go on and thus relied more heavily on CSR scores when assessing those firms’ plans and capabilities. It was blunted in industries with high levels of CSR across the board, probably because no individual firm was likely to stand out.

“For socially responsible firms, our findings highlight the importance of attracting socially minded and long-term shareholders who can potentially moderate the profit-centered interventions of activist hedge funds,” the researchers write, while for policy makers, “protecting firms targeted by activist hedge funds could relieve pressures that ultimately undermine the CSR activities of firms.”

ABOUT THE RESEARCH “Why Activist Hedge Funds Target Socially Responsible Firms: The Reaction Costs of Signaling Corporate Social Responsibility,” by Mark R. DesJardine, Emilio Marti, and Rodolphe Durand (Academy of Management Journal, 2021)



Blackmagicdesign

Introducing ATEM Mini Pro

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!

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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**
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IdeaWatch

Alex Edmans of London Business School and three coauthors gathered data on the average positivity of songs that people in 40 nations listened to on Spotify. The researchers then compared that data with the performance of each country's national stock market over the same period. They wanted to see if there was a correlation between mood, as reflected by the music played, and financial returns. There was. **The conclusion:**

When People Listen to Happy Songs, the Market Outperforms



Professor Edmans, DEFEND YOUR RESEARCH

EDMANS: It's a robust finding based on 500 billion streams of 58,000 songs. When Adrian Fernandez-Perez and Ivan Indriawan of Auckland University of Technology, Alexandre Garel of Audencia Business School, and I looked at the average happiness of the songs played over a week in a country and compared it with what happened in the country's equity markets that week, we found that

more-positive listening choices were significantly correlated with stock price gains. We looked at the United States first and thought that maybe the findings were a fluke. But when we looked at 39 other countries, the results were the same. We then looked at mutual fund flows and found similar effects: Positive music was associated with inflows. We even ran a test with government

bonds, which should go in the opposite direction. Optimistic people should buy fewer bonds, because they're lower risk than equities are, thereby causing bond prices to fall. And in markets that listened to happy songs, they did.

HBR: Why research this? Are you trying to devise a trading strategy? I admit that this sounds like a wacky study, but we're trying to get at a serious economic question: Is the market driven by fundamentals or by emotions? The efficient-markets hypothesis holds that stock returns should reflect only relevant factors, such as interest rates and unemployment figures. It's the irrelevance of music that makes the study interesting. In a rational model, factors that don't affect economic fundamentals—such as investor sentiment—should have no impact on stock returns. We're showing that they do.

It seems obvious to me that mood would affect decisions, including those related to investments. Are there really economists who would say that it doesn't? Yes, there are. Economists acknowledge that some investors are irrational. But they'd say that for every investor whose trades are driven by sentiment, there will be a countervailing force of cold-blooded professional investors that trade the other way and balance things out. So in aggregate, markets are rational. This isn't just the view of academic rationalists—many practitioners believe it too. That's why passive index investing has become so popular recently: It reflects the belief that the market is efficient on average, so you can't beat it.

How do you know that mood—as reflected by music—drives the market rather than the market driving the mood? We tested for this by looking at streaming patterns one day and market returns the next, which rules out reverse causality. We indeed found that happy

music today means higher average share prices tomorrow.

OK, what about controls? We controlled for everything you might imagine could affect national market returns: volatility, macroeconomic policy, world market performance, and so on. Part of our data was collected before the pandemic and part during it, and we used that as an additional test. In some countries short-selling—borrowing a stock you think is overvalued, selling it, buying it back at a lower price before returning it, and pocketing the difference—was banned for periods during the crisis, so hardheaded rationalists couldn't counteract the effect of sentiment. In those cases we expected to see even stronger ties between music and the market, and we did.

Isn't there other research showing that sentiment affects investments?

There is. I've written one of those papers myself, showing that when a country's soccer team is eliminated from the World Cup, its stock market returns decline. Other studies look at weather or seasonal affective disorder. These are shocks to mood. But mood depends on many factors—perhaps your country got knocked out of the World Cup, but consumer confidence is rising and Covid restrictions are easing. So rather than studying a single factor that *affects* mood, we found a measure that *reflects* it. It's a much more comprehensive measure.

But don't perfectly happy people sometimes listen to sad songs? And couldn't someone feeling low listen to a song like "Shiny, Happy People" to snap out of it? A lot of prior research shows that we listen to music that matches how we feel. It's called *emotional congruity*. And we validated that in our data. For example, music choices reflected more negativity when a country implemented stricter Covid restrictions, on cloudier days, and in colder, darker months that

are associated with a gloomier social sentiment.

Who says how positive or negative a song is? A team at Spotify called the Echo Nest actually scores it.

Come on. You made that up. It sounds like a name for some Marvel villain's mountain lair. No! It's real! It was started at the MIT Media Lab about the same time I was a PhD student at MIT Sloan, and now it's part of Spotify's data science group. Every song gets assigned a positivity score between 0 and 1. Human experts scored about 5,000 songs, and that data was used to create a machine-learning algorithm that can be applied to every song. It doesn't take into account lyrics but uses the sound, the beat, and so on. Take a song like "Pumped Up Kicks." It's about a mass shooting, but it's quite happy sounding. In contrast, "Perfect" by Ed Sheeran has positive lyrics but is actually downbeat. Lyrics are also sometimes ambiguous, which is another reason not to factor them in.

And you just averaged the scores of all songs played in a country to measure national mood? Exactly. You multiply the rating by the number of streams and then divide for the weighted average. That alone is fascinating. For example, in our data the United States averaged out at about 0.46—not too positive. Mexico was 0.63. Of course, these scores changed over time.

What's the happiest song on Spotify? "September" by Earth, Wind & Fire, apparently. "Happy" by Pharrell Williams is up there too. The most negative is "Legion Inoculant" by Tool. The Adele song "Hello" was also down there.

How have those economic rationalists reacted to this research? A small minority have said they don't believe the findings—but not because they've found holes in the analysis. Instead,

they won't even read it, because they believe so deeply in efficient markets that they won't entertain the possibility that our findings are right. Others, who are open to the idea that markets may be irrational, have reacted positively to the creativity of our sentiment measure and the rigor of our analysis. A third common reaction is "Look, Alex, this is a fun, cute paper, but why spend time on this?"

Because you get to hang out in the Echo Nest? I always tell people, "This is a really important issue that we're looking at here. What drives markets: rationality or emotion?" Richard Thaler and Robert Shiller won Nobel Prizes for thinking about this stuff. Most of my research is on behavioral finance, specifically ESG and sustainable investing, and there's a connection here. The rationalists will say ESG doesn't work, because if there was a payoff, the market would factor it into prices. But what if the market is irrational—sentimental? Then the market might be not only factoring in things that shouldn't matter, like national mood, but also ignoring things that should.

Such as? I previously wrote a paper on how the 100 Best Companies to Work For in America—as determined by *Fortune*—beat the market from 1984 through 2011. That study was recently replicated, and the results still hold even a decade after it was published. Efficient-market proponents would say that once investors learned that employee well-being predicts share-price performance, they'd buy the 100 Best Companies as soon as a new list was announced, so those stocks wouldn't subsequently outperform. But they continued to do so, even after my paper was released. If markets *aren't* fully valuing employee well-being but *are* reflecting mood, how can they be anything but inefficient? ☹

Interview by **Scott Berinato**
HBR Reprint F2201B

HOW WE DID IT



The Founder of UBI Group on Leading a Transition to Renewable Energy in Africa

by Salma Okonkwo

IN 2018, 44 countries signed on to the African Continental Free Trade Area agreement, which, when it took effect a year ago, created the largest free-trade zone in the world. After years of negotiations it was a huge step forward and, in my view, marked a turning point: Africa would finally move toward true industrialization. Instead of consuming mostly foreign-made products, we would make and trade our own goods.



European and Chinese companies had already started setting up African-staffed factories on the continent, and domestic businesses would get an even bigger boost from AfCFTA.

For UBI Group, the oil and gas distribution company that I founded in Ghana and still help lead as chair, this was welcome news. We were well positioned to capitalize on the coming transformation. But I knew that Africa didn't want to repeat the mistakes the West and China had made as they pursued development and economic growth. Our continent's industrialization would require an enormous amount of energy to propel it, and I wanted to help my country and its neighbors develop responsibly.

That's why, also in 2018, after a few years of research and planning, I moved forward with my plans for a new venture: the solar-focused Blue Power Energy. Though I'd spent the previous decade working on infrastructure for storing and moving fossil fuels around Ghana, I knew that renewables were a better long-term alternative for Africa. It's still early days for the company. We have a staff of 20—eight employees and 12 consultants. We haven't yet started generating revenues. But we're currently building two solar farms in Ghana with the goal of eight more by 2028, and we're aiming to supply 3 million customers with 140 megawatts of clean energy by the end of 2023.

My hope is that I can apply the lessons I learned launching and building UBI to this new business so that it not only becomes just as successful but also has a more positive impact on the world.

DIVERSE ROLE MODELS AND EXPERIENCE

As one of 14 siblings growing up in the suburbs of Accra, I learned early on how to strategically negotiate for myself. I could argue my way both into and out of most things, so my parents often joked that I should become a lawyer. My brothers, sisters, and I were driven to succeed because our family was old school about achievement. If we got As, we were rewarded. If we got Cs, my dad, a teacher turned politician turned businessman, would make us figure out what went wrong. He didn't expect that we'd all become professionals, but he encouraged us to find our areas of strength and be the best at them.

I also took great inspiration from my mother and her relatives. That side of the family is descended from Ghanaian royalty and maintains a matrilineal tradition. The women are the heads of their households and the breadwinners, and there isn't a lazy bone among them. My maternal grandma had no formal education but built a good business making and selling dry smoked fish. My mother went to junior college to study nursing but was recruited to be a flight attendant, a job she did and loved for several years. She then became a real estate agent and developer and an importer and distributor of British baby items. I have aunts who were traders of various household products and clothing and older sisters who are merchants; another sister is an educator.

I finished high school at 16, and at 18 I left Ghana to attend college and graduated from Loyola Marymount University. At first I studied political

science, but when my uncle suggested that I get a more useful nursing degree, the little negotiator in me opted for a business degree instead. I did another year and a semester to attain it before graduating. I worked all through school, in the dean's office and at Bullock's department store (which was eventually acquired by Macy's). After college I took a job at Transamerica, a life insurance, investment, and retirement services company, and then at NSSI Group, a food brokerage.

I'd always wanted to return to Ghana, so after having children and getting married in the United States, I decided to start vacationing there to explore my options. At first I worked for my mom on some affordable-housing projects. But I kept seeing other opportunities. For example, in 1998 the parking lot of the Kotoka Airport, in Accra, was still staffed by attendants who exchanged tickets for cash, which seemed to me like an open invitation to commit theft. I tracked down the manager and explained why automated machines would be more effective, and he asked for a proposal. I went back to the States, found a company that could install such a system, and served as a liaison between the two businesses.

Next I found myself working to bring HIV antiviral drugs and medical supplies from the United States to Ghana. I was a hustling entrepreneur and greatly enjoying it. But then I was introduced to a contact at Sahara Group, the company that would bring me back at age 33 to my home country full-time and into the sector that would become my life's work.

In my new role at Sahara, an energy and infrastructure conglomerate that



I firmly believe that the future of our industry is in renewables. And the most obvious choice for Africa—given its climate—is solar.

now operates in 38 countries across Africa, the Middle East, Asia, and Europe, I coordinated with Ghana's Environmental Protection Agency, port authorities, and shipping companies to bring crude oil into the country. But again, from this new vantage point I could see many other opportunities—notably to distribute liquefied petroleum gas (LPG), a more efficient and less pollutive fuel, to an underserved population in the north of the country, where people were still felling trees for firewood and the government was offering subsidies to companies that could help them stop. I estimated that we could make \$300,000 a month. But Sahara didn't want to invest in the necessary infrastructure; it wanted to stick to crude trading in Ghana. So I decided to pursue the idea on my own.

LESSONS FROM UBI

In August 2006 I left my job to start UBI. Unfortunately, the company hit a stumbling block right away. We could move LPG to the north, but we had no place to store or dispense it. There was a reason that my competitors—non-African oil traders including Vitol, Glencore, Trafigura, Shell Trading, Total, and BP (which I call briefcase businessmen because they show up to collect their cash but don't stay to reinvest in our communities)—had avoided this product despite their deep pockets and already impressive infrastructure. The tank farms required for LPG are specialized and expensive. That realization prompted our first pivot: to petrol and diesel distribution, for which ample storage existed in the



country—lower-hanging fruit that was needed in less-central regions of Ghana. Once I built a capital base, I could revisit LPG.

Our first customer wasn't an easy get. He had been buying from a Shell subcontractor for \$1.10 a liter, so I said that we'd charge a little less and be at his beck and call 24/7. In our first big break, he signed. UBI's second customer was the telephone company Spacefon (today MTN), which hadn't been looking at its oil and gas expenses and welcomed the chance to save money and get better service. Soon our revenues were spiking, but we somehow weren't seeing improvements in our bottom line.

We shortly discovered the problem. An audit revealed that our back-office systems were a mess. This is a common pitfall for entrepreneurs. Because we're dreamers and salespeople, we sometimes aren't diligent about setting up policies and processes, including the

A prototype solar farm in central Ghana

kind of accounting controls you need to prevent revenue leaks—especially theft. Some of our clients weren't paying their bills. Some of our territory managers were pocketing money from those who paid in cash. We had to fire people, some of whom were also arrested. It was an extremely painful but important learning experience. Now, with the help of consultants, UBI and Blue Power Energy rigorously screen potential hires, and we have clear accounting protocols: We insist that payments be made by check to corporate accounts, with a transaction record sent to the central office.

By the end of 2007 we had 30 employees and annual revenues of more than \$5 million. By 2012 we'd grown to about 230 on staff and sales of nearly \$200 million, with gross margins averaging about 11% for some products. We built, bought, or partnered with filling stations across



Ghana and installed the fuel-storage-tank farms I'd envisioned. We invested in our own fleet of trucks. We expanded to bunkering vessels—floating fuel stations where Western tankers could unload their cargo—offshore from Nigeria, Benin, Togo, Ghana, and the Ivory Coast. We won major government and corporate business in our home country and started selling in Nigeria and the West African subregion.

All this was expensive, however, and banks were charging double-digit interest rates at the time. We took out some financing as a stopgap measure, but we needed a longer-term solution. So we entered into talks with Standard Chartered and Barclays to invest or extend larger lines of credit.

At the same time, another opportunity emerged back at Kotoka. Two decades earlier the airport had set aside an area for fuel storage, but because no one wanted to make the big up-front investment, the tank farms had never been built. Instead, large trucks were still bringing fuel directly to the planes and sometimes parking while partially full at the airport, which wasn't safe. We had the expertise to build the needed infrastructure, so we applied for the allocation of land from the Civil Aviation Authority and got it. The lease was expensive for us, but it was a necessary investment. We quietly lined up the permits and started building what would become a gold mine for UBI.

Our multinational competitors were surprised and maybe a bit annoyed, and suddenly our negotiations with the big European banks broke down. We suspect that they were pressured not to help us. Enter Trafigura, a Swiss

multinational commodity-trading company, which was interested in distributing its products through us in Ghana. Its subsidiary, Puma Energy, ended up buying 49% of UBI in a deal that closed in 2013. I stepped down as CEO but remained as chair of the board. As much as I wanted the company to remain fully Ghanaian-owned, that marriage allowed us to finish the airport project and keep growing. Though UBI Group has downsized to 150 employees, yearly revenues are now more than \$400 million, with steady annual growth of 15% to 20%.

A NEW ERA

My experience building UBI with a great team taught me that success comes to those who take large, early bets on new markets but remain agile—willing to chart a different course if circumstances change. That's the mindset with which I launched Blue Power Energy. I firmly believe that the future of our industry is in renewables: wind, hydro, geothermal, biomass, and—the most obvious choice for Africa, given its climate—solar. Yes, I still have ties to energy's past. I can't up and leave fossil fuels, because they are still used and needed. But I also want to help lead the transition away from them.

Learning from missteps at UBI, I started by doing an enormous amount of research to educate myself on renewables and reaching out to others rather than assuming that I could run with the idea on my own. I talked to experts and consultants and asked lots of questions. I created a board of directors that includes a lawyer, an academic, a businessman, and a power-generation specialist. We hired one executive with deep

technical and operations expertise in the clean-energy sector, another who is just a total go-getter, and the all-important accountant to make sure we're doing everything right on the finance front.

When we officially launched, in 2018, we had already jumped through the necessary regulatory hoops and signed an agreement with Ghana's Bui Power Authority to develop part of its solar portfolio, including a 100-megawatt farm near my father's ancestral village. We're in talks to build, operate, and transfer the energy from farms all through the country but mostly in the north, and we have a contract to generate 40 megawatts for the Brong-Ahafo region. Our aim is to supply many other regions, along with large mining operations and manufacturers, which are increasingly looking for ways to earn carbon credits.

No question: Generating power in this way is still more expensive than using nonrenewables in the short term. But in the long term it will be the safest, most sensible, and least expensive way to generate and utilize energy. Blue Power's margins will be nowhere near as high as UBI's to start. Potential customers worry that solar isn't as efficient and that managing a hybrid facility will be too complicated. But I believe I can eventually convert even the skeptics. Clean energy will offer a greater return on investment than fossil fuels do. It is possible to earn a profit and protect the environment and our local communities at the same time. Africa can industrialize in a sustainable way, and I will do my part to promote that kind of growth and development. ☺

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Spotlight

Adapting to Digital Disruption







AUTHOR

Julian Birkinshaw

*Professor, London
Business School*



SPOTLIGHT

How Incumbents Survive and Thrive

Research on the world's biggest companies shows that **digital disruption** is less destructive than you might think.

THE PREVAILING NARRATIVE in business today is one of ever faster change and creative destruction: Big Tech companies are taking over, the number of unicorns (start-ups worth \$1 billion) keeps growing, the average tenure of old-economy companies on the S&P 500 is plummeting, and incumbency has never been worth less. The message to established firms—play catch-up or die—is bleak.

But let's look at the bigger picture. Yes, there's no denying the exponential growth of the large tech companies or the cautionary tales of disruption's famous victims (think Nokia, Kodak, and Blockbuster). However, over the past three decades many large sectors of the economy have not been disrupted—that is, taken over by tech-enabled competitors that serve customers more efficiently and cheaply than incumbents do—to any significant degree. Indeed, most established firms



How Incumbents Survive and Thrive

are operating very successfully in today's digital world.

Consider a couple of data points. The internet revolution started in the mid-1990s, a quarter century ago, long enough for the winds of change to work their way through the whole economy. So how many of today's *Fortune* 500 didn't exist back in 1995? Seventeen. The other 483 have been around, in some shape or form, since that year. When you look at the Global 500, the picture is similar.

Digital disruption is real, of course, but it has been oversold by three myths: Every sector is under threat, disruption happens quickly and is accelerating, and established firms are struggling to adapt. The facts suggest otherwise.

I have two objectives in writing this article. The first is to help businesspeople understand the reality of the past, which will better prepare them for the future. For example, many observers claim that we are on the cusp of full-scale disruption in industries such as finance, insurance, and education. My research shows that people have been making the same predictions—erroneously—since the 1990s. Knowing why these industries have not been disrupted so far will improve our ability to foresee how things might

evolve over the next few years. My second goal is to help executives make better decisions. It's often argued that the only way to fight a tech disrupter is to beat it at its own game—by, say, creating a new business in a separate unit. But I've found that there are at least three other valid strategies a company might want to adopt, depending on the circumstances. Organizations that approach competitive threats soberly and systematically will make smarter choices about how to not only survive but also thrive.

The Real Story

Let's go back to the 1995 *Fortune* 500 and Global 500 and compare them with the 2020 lists.

In 2020, 198 of the firms that had made the *Fortune* 500 in 1995 were still on the list. Two hundred and fifty-six firms had dropped off it because they had merged with or been sold to other corporations or to private equity firms or were no longer big enough to qualify. Only 35 of the companies in the 1995 ranking went bankrupt. The 2020 list also contained 231 firms that were in existence back in 1995 and grew enough to get onto it. Another 54 were spin-offs

and restructurings of previously existing businesses. And as we've noted, only 17 companies—among them, Facebook (now Meta), Google (now Alphabet), Tesla, Netflix, and Uber—were founded after 1995.

As for the Global 500, 164 of the firms that were on the list in 1995 still made it in 2020. Ten had died, 150 had dropped off the list, and 132 had been sold or merged with other firms. The 2020 ranking included only 12 entirely new companies; 324 firms were new to the list but either had existed or were formed from companies that were already around in 1995. (See the exhibit "The *Fortune* 500 and the Global 500, Then and Now.") The big change here was geopolitical: The 2020 Global 500 had 95 fewer companies from Japan than the 1995 list did, and 116 more from China.

The bottom line: There has been less creative destruction than prior studies have suggested—indeed, less than most people believe.

I get a lot of pushback when I present this analysis. Some of it is about the limitations of the sample: The two lists don't include private and venture-backed firms and professional partnerships and cover only a 25-year time period. These are fair points, but they don't discredit the basic findings. If you want hard evidence about the changing patterns of consumer and industrial consumption, the *Fortune* 500 and the Global 500 are good places to start.

A bigger concern is that these rankings are based on sales revenue, not

IDEA IN BRIEF

THE MYTH

Many people believe that technological disruption will destroy most old-economy companies, with Big Tech and unicorn start-ups ultimately taking over the world.

THE REALITY

When you look at how the makeup of the *Fortune* 500 and the Global 500 has changed since the rise of the internet, that story doesn't hold. Only 17 of the companies in the 2020 *Fortune* 500 didn't exist in 1995. The picture is similar internationally.

THE LESSONS

Industry transformation happens very slowly, and incumbents can successfully respond to disruptive challenges in one of four ways: retrench, fight back, double down on existing assets, or diversify into new businesses.



How many of today's *Fortune* 500 didn't exist back in 1995? Seventeen.
The other 483 have been around, in some shape or form, since that year.

market value or profitability. I didn't use market value because a share price merely reflects current investor sentiment about a firm's future growth potential—which, at present, provides rosy views of Big Tech. Meanwhile, a dive into the profitability of firms that have stayed on the *Fortune* 500 shows that despite anecdotal examples of margins that have been squeezed by digital disruption in some industries, most companies are more profitable today than they were back then.

Let's break the firms into five categories and examine the growth and profitability of each. (See the exhibit "Revenue and Profits for Firms That Dropped Off, Climbed Onto, or Remained on the *Fortune* 500.") *Mainstays* are the companies that made both years' lists. *Fallers* are those on the 1995 list that either were sold or merged with another company, or stopped growing. *Risers* are those on the 2020 list that already existed in some shape or form in 1995. *The doomed* are the companies from the 1995 list that went bankrupt. *New arrivals* are the (mostly digital) firms on the 2020 list that were established after 1995.

The new arrivals are of course growing rapidly. But equally impressive is the continued growth of the mainstays. Even the fallers—which dropped out of the *Fortune* 500 at some point—still show some growth.

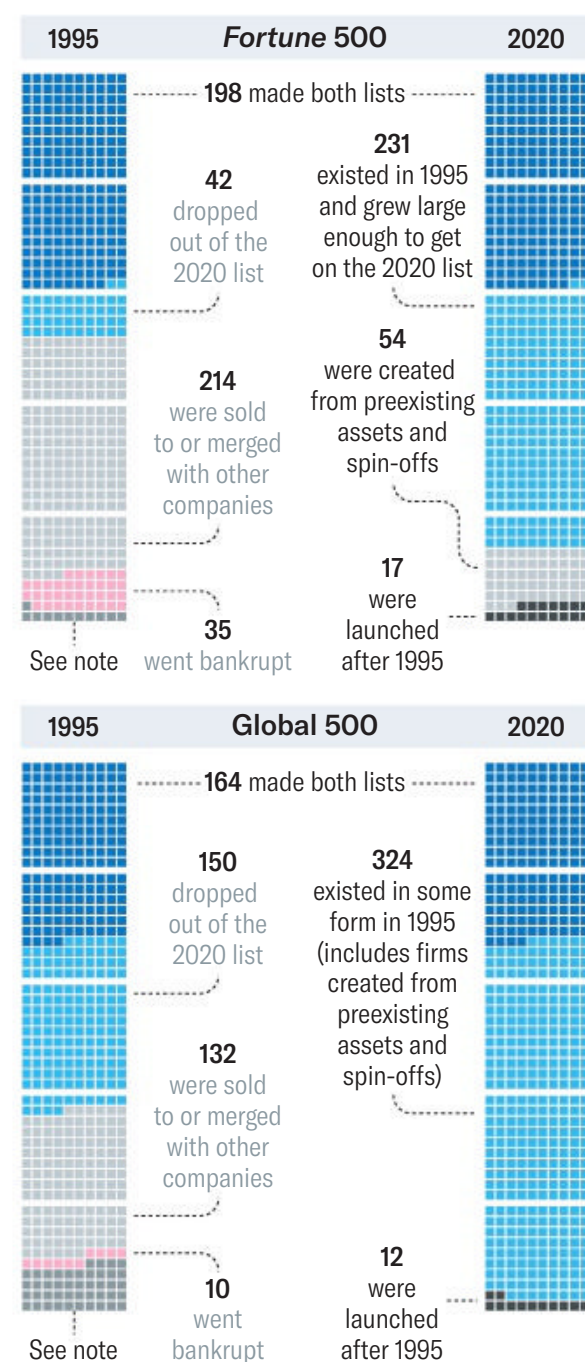
The profitability data tells a similar story. The new arrivals went from no to very high profits, while the mainstays grew their profits year after year (apart from 2008, during the global financial crisis). Even the fallers remained profitable (except in 2008). Only the 35 doomed firms saw sustained losses.

A look at the *Fortune* 500 by sector shows that the only sectors seeing significant churn were TMT (technology, media, and telecom) and retail (which includes restaurants and hotels). Five of the 52 TMT firms on the 1995 list went bankrupt, and 10 of the 62 TMT firms on the 2020 list didn't exist before 1995. In retail 19 of the 67 firms on the 1995 list went bankrupt, and three of the 74 firms on the 2020 list were new. The other sectors—energy, materials, and chemicals; industrials, automotive, and aerospace; consumer products; health care and pharmaceuticals; transportation and travel; and even financial services and insurance—all had high levels of inertia and look surprisingly stable.

Let's revisit those myths I mentioned earlier: No industry is immune, digital disruption happens quickly, and established firms are unable to adapt. None of them is borne out by the facts. Some industries, like TMT and retail, have been moderately affected; some, like industrial and consumer goods, hardly affected at all. Disruption happens over a long time frame. The retail banking, insurance, education, audit, and consulting industries were seen as vulnerable in the 1990s, and even though changes are afoot in all those sectors, the old guard have not yet surrendered their dominant positions. And while some established companies have struggled over the past few decades, the evidence shows that they aren't representative of broad trends. As I've noted, most incumbents have transitioned into the digital age quite well. So, with apologies to IBM's Lou Gerstner for stealing his line, How did these elephants learn to dance?

The *Fortune* 500 and the Global 500, Then and Now

How the rankings of the largest companies in the United States and the world changed between 1995 and 2020



Note: The *Fortune* 500 list for 1995 included several duplicates (the same firm listed twice), some foreign-owned firms (which we excluded), and a few companies that could not be traced because of name changes. The Global 500 list included a significant number of firms in Asia (mostly Japan in 1995 and China in 2020) that did not have English-language websites, which also prevented tracing.



Adaptation Strategies

When companies face a disrupter, their natural response is to fight fire with fire: to set up a competing digital unit, build an incubator or accelerator, or pursue a transformation. “Companies that adopt bold, offensive strategies in the face of industry digitization improve their odds of coming out winners,” argues a recent McKinsey study.

But that’s only one way to tackle the problem. Do a simple five-forces analysis to evaluate how digital technology affects your industry, and you will probably find that it lowers the barriers to entry in some areas, encourages new entrants, and increases the buying power of customers, especially in B2C markets. As every business student knows, the smart response is to push back against those forces—for example, by shoring up the barriers to entry, increasing your own bargaining power, and playing to your existing strengths. Sometimes that involves direct retaliation, but at other times an indirect or defensive response makes more sense. Sometimes you’ll want to focus on your existing markets; in other cases you should target new ones. A look at the strategies pursued by the *Fortune* 500 and Global 500 firms that successfully navigated the past 25 years of digital change reveals four general approaches.

Fight back. The default reaction to disruption, again, is to try to take on an insurgent at its own game. Examples include British Airways’ launch of the no-frills service Go, since sold to EasyJet; the *New York Times*’ creation of NYTimes.com; and the major carmakers’ moves into electric vehicles. Incumbents



can go head-to-head against disrupters by setting up new units, making an acquisition, or entering a joint venture. Fighting back is appropriate if the new technology represents an existential threat to the firm, but that isn’t true very often. Moreover, it’s extremely hard to do well: While there have been some successes, established firms have a poor track record overall when it comes to beating upstarts at their own game. Microsoft, for example, has struggled to compete with Google in search, and GM’s attempt to take on Uber with its Maven car-sharing service went nowhere.

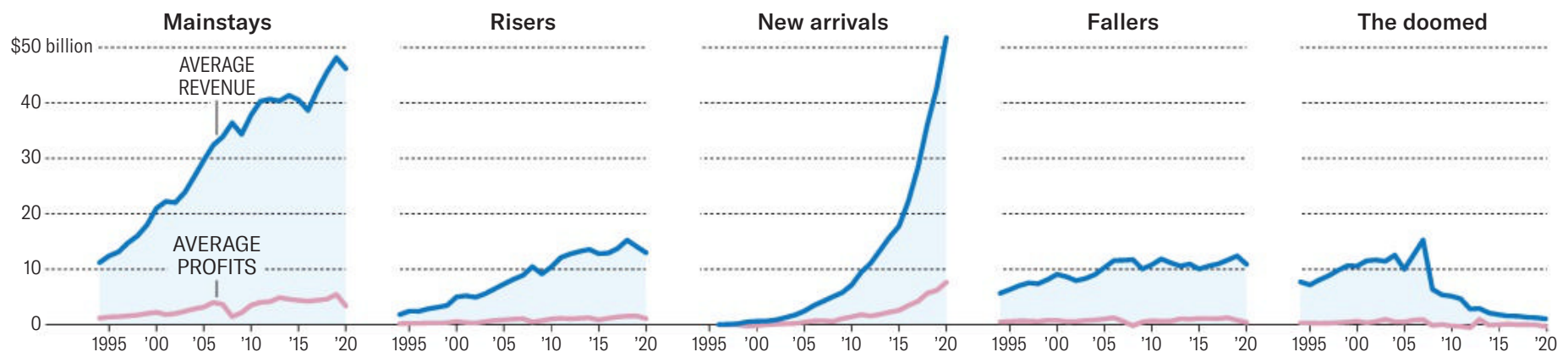
Double down. Here, an established firm plays to its existing strengths. Consider Disney’s strategy in the 2000s. The company could have tried to compete in the nascent and uncertain streaming market, but instead it built on its proven strengths in moviemaking, buying Pixar and Marvel (and in 2012 Lucasfilm) and creating a string of blockbuster hits. Disney’s strong content library gave it huge bargaining power with Netflix and positioned it to choose a timeline for launching a streaming service of its own. Another example is Pfizer, which chose

not to move into the unproven world of biotechnology in the early 2000s and instead capitalized on its prowess in marketing and distribution with the acquisitions of Warner-Lambert, Pharmacia, and Wyeth. In such cases, assets like a trusted brand, long-term relationships, and worldwide reach create entry and mobility barriers that are extremely hard for new entrants to overcome.

Retrench. This is a defensive move—based on weakness, not strength—in which established firms yield ground to new arrivals and use a variety of tactics to ensure their own continued survival. One such tactic, commonly seen in declining industries, is consolidation through mergers and acquisitions. For example, the camera makers Konica and Minolta agreed to merge in 2003 when faced with the rapid growth of the digital market, and in mobile infrastructure Nokia Siemens Networks bought Alcatel-Lucent in 2016 to forestall the rapid growth of Huawei in 4G. Another tactic is to seek help from government and regulators in putting additional constraints on new entrants. Taxi firms did this when Uber first appeared in their markets, and

Revenue and Profits for Firms That Dropped Off, Climbed Onto, or Remained on the *Fortune* 500

The trends were positive for mainstays (companies that made both the 1995 and the 2020 rankings), risers (companies that grew enough to get onto the 2020 list), and new arrivals (companies born after 1995). Even the fallers (companies that got knocked out of the ranking) saw growth and profitability. Only the doomed (companies that went bankrupt) experienced declining revenue and sustained losses.



Source: Research by Julian Birkinshaw, Rachel Madley, and Pawel Stach.

many banks today are working with central banks and policy makers to regulate cryptocurrencies. Seen through the lens of the five forces, retrenching is a way for incumbents to increase their bargaining power, reduce industry rivalry, and raise barriers to entry.

Move away. Here the established firm simply migrates to new opportunities. One example is Thomson Corporation in Canada, which sold its newspaper business in the 1990s and invested in information services through a merger with Reuters. Another is Fujifilm, once Kodak's biggest competitor and now a successful health care, imaging, and materials firm. These are both examples of "real options" thinking, whereby firms reapply existing competencies (Thomson in information services and Fuji in chemicals) in new markets.

Which of these approaches should your business pursue? It depends on your circumstances. For example, a recent study by James Bessen, Erich Denk, Joowon Kim, and Cesare Righi shows that if you have strong assets that the market still values, doubling down on your existing strategy is likely to work out well. If digitization is a threat that you're not in a good position to counter, moving away into new, defensible areas

is probably the smartest choice. There are benefits and risks to each of these strategies. (See the exhibit "Four Ways to Respond to Disruption.")

Can you pursue all four at the same time? That makes sense up to a point. When a new technology or an upstart competitor first comes along, you need to understand the context, do some careful analysis, and consider a full range of options. Take JPMorgan's response to cryptocurrency: publicly attacking it while joining a consortium of banks to investigate it, and then subsequently investing in it directly. Or Fiat Chrysler's stance toward electric and autonomous vehicles: partnering with upstarts Aurora and Waymo and forming a consortium with BMW, Intel, and Mobileye while also pursuing a full-blown merger with France's PSA. In conditions of high ambiguity, hedging your bets makes sense.

But eventually you need to get off the fence. Strategy is by definition a commitment to a course of action that precludes others, and the failure to make a choice can be fatal. This happened at Kodak. When digital photography became viable, the company could have retrenched around its declining but profitable photo and film business (and paid shareholders dividends for another decade) or gone

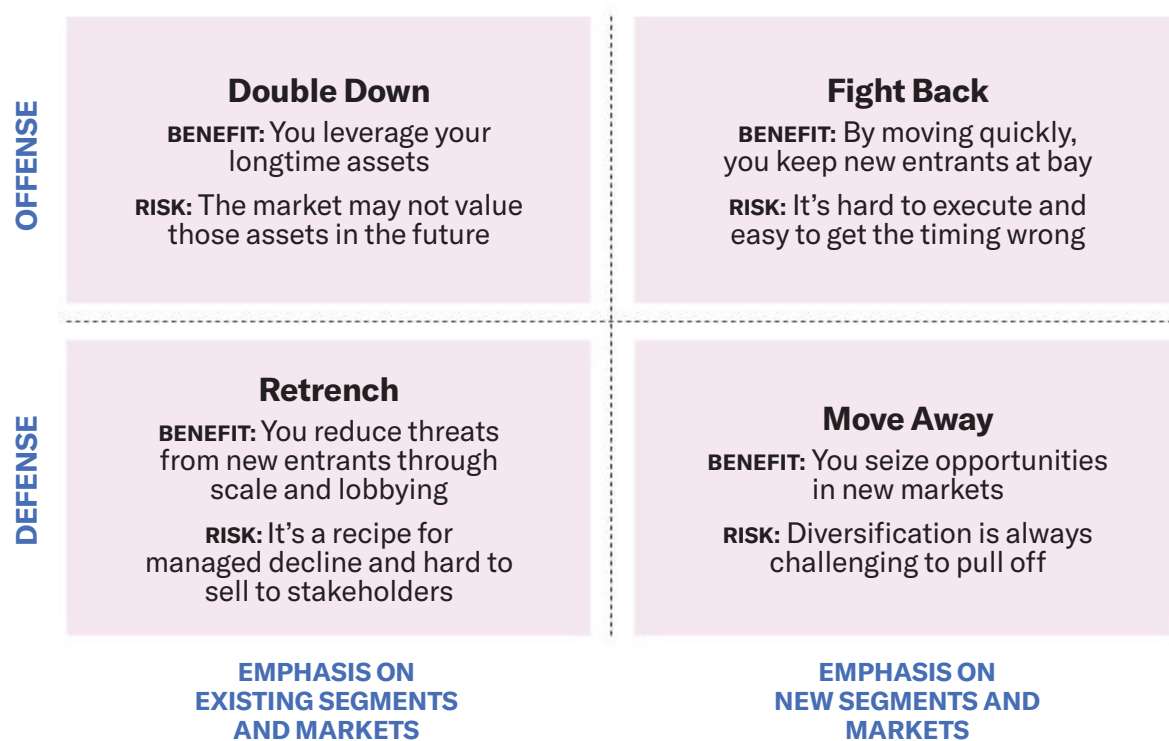
all-in on digital imaging—or, like Fuji, sought new pastures. Instead, a succession of CEOs tried a bit of everything, resulting in confused customers and the premature death of the company.

The UK chain of book and stationery stores WHSmith offers an interesting case study. In the early 2000s it faced the same threat as other brick-and-mortar brands: being disintermediated by the internet. It could have tried to build an online business, and it looked carefully at the opportunity, but it chose to double down on its retail operation. It separated its newspaper distribution and retail businesses, focused on high-traffic locations such as airports and train stations for the latter, and upsold customers on high-margin chocolate bars and bottled water. The net result was 10 consecutive years of increasing profits, even in years when top-line revenues shrank, before a Covid-driven downturn in 2020.

A couple of additional points: First, regardless of which option you choose, you must embrace digital technology to improve operational effectiveness. The global utility Enel, for instance, has a unit, Enel X, that is experimenting with new business models (such as demand management and electric-vehicle

Four Ways to Respond to Disruption

There are benefits and risks to each strategy.



charging) that may have huge growth potential but currently represent less than 2% of the parent company's revenues. Everyone else at Enel is focused on optimizing the existing business and providing its nearly 72 million customers with high-quality service. However, its operations have been bolstered by a behind-the-scenes digital transformation, including new technology in its factories and distribution networks and a reengineering of its internal infrastructure and processes.

Second, each of these approaches sends a very different message to your various stakeholders, and retrenchment in particular is a tough story to sell. (A CEO who says, "We see this new technology coming, but we aren't capable of responding, so we will retrench around our declining traditional base" isn't likely to be in the job very long.) So even if you've chosen that path, your firm might also need to make a small show of fighting back or doubling down. Many large retail banks are doing this now: They talk up their internal start-up accelerators and venture investments, but behind the scenes they are taking

out costs, selling off their most badly affected lines of business, and lobbying regulators to keep fintech companies out of the market.

Choosing Your Path

The lessons that corporate leaders should take from this analysis are straightforward.

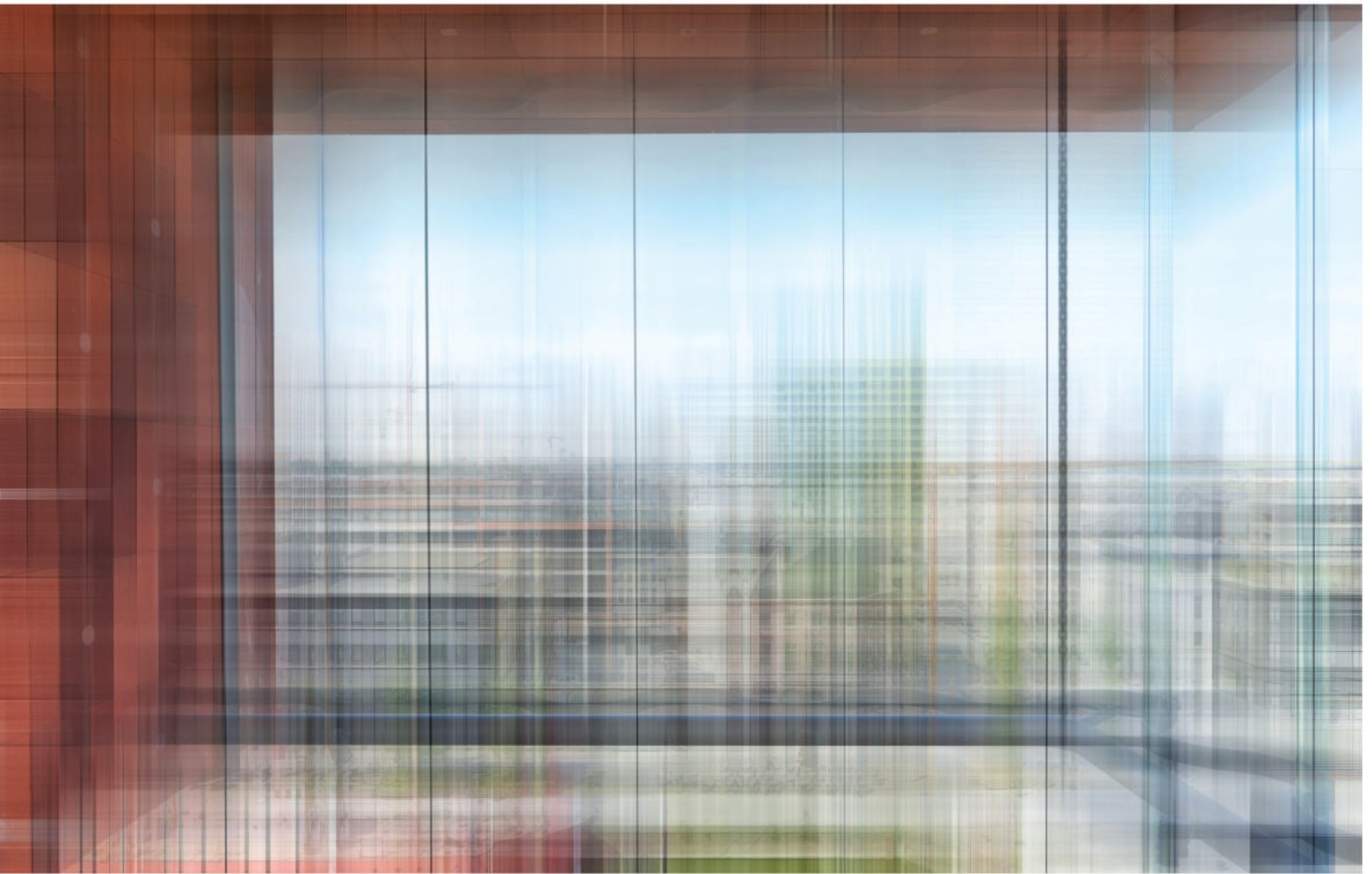
First, don't make generalizations based on anecdotal and high-profile examples. Everyone knows what happened to Kodak and Blockbuster, and we can learn from their stories. But they're outliers. Some creative destruction has happened in technology, media, and retail. All other major sectors haven't seen that much, thanks to a range of barriers to entry including high switching costs, economies of scale, trusted relationships, and regulation. It's important to understand not only the logic of disruptive innovation but also the basics of industry structure and competitive advantage.

Second, judgment beats paranoia. The late Andy Grove used to say that only the paranoid survive; it was his way

of keeping everyone alert to the next big threat. Unfortunately, it didn't help Intel pick up on the exponential growth in smartphone processors in the 2000s. More important, a fixation on disruption gets you into trouble, because when you're so focused on the risks of coming late to a new technology, you ignore the perhaps greater risk of moving too quickly. Examples abound: Eli Lilly wrote off almost \$300 million after an early foray into biotechnology—the acquisition of Hybritech in 1986. GM launched its first mass-produced electric car, the EV1, in the late 1990s but stopped production in the early 2000s after spending around \$1 billion. BP was an early mover in renewables but shuttered its alternative energy business in 2011. Then there was Time Warner's ill-fated merger with AOL, which resulted in a \$54 billion write-off. You need to keep two worldviews in mind: the possibility that your company will be disrupted, and the likelihood that it won't. That will help you make better decisions.

Finally, take the time to make the right choice. The effects of new technologies are usually felt across decades, not years, and most potentially disruptive ones (and the firms behind them) end up coexisting with their established counterparts. The newspaper industry is still in flux—with paper and online versions alongside each other—25 years in. Biotechnology was touted as a potential disruption as early as the 1980s, but it took until the 2010s for the drugs it produced to become blockbusters (and many of them were made by traditional big pharma companies). So instead of plunging forward, play the long game: stay alert, plot scenarios, be proactive, and find the adaptation strategy that best fits your organization's needs and capabilities.  **HBR Reprint S22011**

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The Strategic Advantage of Incumbency

How to unleash the power of complexity, trust, and commitment

SPOTLIGHT



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A FEW YEARS ago, as part of our work with large, established companies, we created a mock cemetery filled with tombstones bearing the names of industry giants that had suffered untimely bankruptcies or fire sales. The burial ground included former icons like Kodak, Blockbuster, Digital Equipment Corporation, Pan Am, Borders, HMV, Nortel Networks, and Saab. The point of the exercise was to ask business leaders to reflect on this question: Is a slow demise inevitable for incumbent companies?

Over the past two decades many corporate leaders have become focused—perhaps too focused—on that existential question. For most of the 20th century a company that had



plainpicture/Spitta + Hellig

been in business for many years and had a strong market share and a large employee base was viewed positively. Size was seen as an asset, not a liability. But in the early 1990s long-dominant firms like IBM and General Motors began experiencing significant losses. Later in that decade, Clayton Christensen's theory of disruptive innovation, which describes how established companies fall victim to their own success, became a popular concept in strategy. That caused a shift in the prevailing mindset: Today age and size are often perceived as vulnerabilities, and "legacy" firms are typically cast as Goliaths that will ultimately be taken down by smaller, nimbler Davids. This conventional wisdom—that corporate disruption and death are inevitable—has put many market leaders in a defensive stance. Inside such firms innovation and transformation efforts can take on an air of desperation.

We see a different path forward. Instead of embracing a defensive posture, established companies should adopt a mindset and a set of behaviors we call *strategic incumbency*. We define strategic incumbency as an established firm's ability to dynamically convert age, size, and tradition into the key advantages of market power, trusted relationships, and deep insights. That conversion, when managed well, allows incumbents to reinvent themselves, their strategies, and their business models and create new opportunities and ward off upstarts.

The question is: How? What steps do successful incumbents take to prevail through tough circumstances? How are they better equipped than other firms? What critical pitfalls do they avoid?

To answer those questions, we conducted a three-year study of global incumbents across a variety of industries. Starting with Global 500 companies and other firms we had encountered in our work, we applied six criteria (age, market share, financial performance

during downturns, ability to adapt the core business, ability to create a second engine of growth, and resilience in the face of negative events) to ultimately identify 38 companies that had fended off challenges and were still thriving. We examined those firms in depth over the period from 1995 to 2019, conducting scores of interviews with their C-suite leaders to understand how their organizations have stayed ahead.

Despite their long track record of success, the companies we studied resist the temptation to accept the status quo. Instead of making passive assumptions, they actively question whether customer needs are stable, competitors are clearly identifiable, and a solid brand name offers protection. How might customer needs change? they ask. How might competitive threats appear from non-traditional players? What might cause brand loyalty to shift rapidly, allowing insurgent brands to grab share?

They also use their incumbency to their advantage. In our research we identified three capabilities that give them an edge: the ability to manage complexity, the ability to maintain a long-term focus, and the ability to leverage customer relationships to expand into adjacent spaces. In this article we'll describe in detail the competitive moves of three firms that have exploited those strengths.

Harnessing Complexity

Although complexity has a negative connotation, it has both good and bad facets. Bureaucratic processes that slow down decision-making, create internal power plays, and add "busyness" to an organization are bad complexity.

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Anything that boosts the top or bottom line and creates alignment, energy, and focus is good complexity. Strategic incumbents systematically eliminate bad complexity and effectively increase good complexity—often by approaching a wide set of customer needs in ways that smaller competitors can't replicate.

For an example of value-adding complexity, consider Hindustan Unilever Limited (HUL), the Indian subsidiary of Unilever, the Anglo-Dutch multinational. When Sanjiv Mehta became the CEO of the then 80-year-old organization, in 2013, he challenged the internal sentiment that there was little room for the largest fast-moving consumer goods (FMCG) player in the country to grow. To counter that viewpoint, he asked a simple question: "What is the identity of the Indian consumer?"

There was no single answer for a country of more than a billion people, where language, culture, taste, and preferences change every few hundred kilometers. Instead of approaching India as a monolith, Mehta and his team devised a strategy called "Winning in Many Indias." First they divided the country into 14 consumer clusters based on consumption patterns and stage of economic development. Then they identified ways to use localization to drive growth—not only by adapting products for local tastes but also by using different distribution and supply chain strategies in different regions. To improve his organization's agility, Mehta set up 15 country category business teams, such as home care, laundry, hair care, skin care, naturals, and food. Each team was independently run by a mini board and headed by a



Incumbents often look with envy at agile new entrants that don't have to contend with the burden of legacy systems. But in doing so, they fail to recognize their own edge.

general manager with a mandate to deliver on the P&L.

This decentralized organization helped HUL invest resources where it would obtain the highest returns by catering to regional needs and tastes. For example, HUL used the consumer insights mined from the regions to make and sell different kinds of tea blends and create beauty products with a wider range of pigments suited to local skin tones. The complexity of the strategy was illustrated by a 14-by-15 matrix in which each cell represented an approach to marketing a category within one of India's distinctive local markets. HUL's size and resources—its incumbency—allowed it to tackle a broad variety of approaches at once. No start-up could hope to localize so many products for so many regions.

How many leadership teams would have dared to undertake a structural change of such magnitude—in a successful company at that? For Mehta, the only way to launch HUL on its next growth trajectory was to align the company's operating structure with the heterogeneity of the country. He explained to investors, "It [the new structure] added complexity to the business, but it is like good cholesterol—it's a complexity which we welcome, and it's a complexity which we manage." HUL's efforts led to 41% revenue growth from 2013 to 2019, a doubling of pretax profits, and consistent margin improvements. Investors rewarded the company: In October 2019, HUL's market capitalization of \$60 billion made it one of the most valuable FMCG companies in the world, ahead of Colgate-Palmolive, Kraft Heinz, and Reckitt Benckiser.

Maintaining a Long-Term Focus

In our study successful incumbents showed exceptional ability to stick to a long-term agenda. Whereas passive incumbents get caught up in quarterly performance, strategic incumbents strive to balance delivering in the present with preparing for the future. The CEO of one company we studied explained, "The short-term metrics are the *outer* scorecard, but you also need a more important *inner* scorecard that looks at the contribution you make to employees, customers, and society in the long term." We find that commitment from the CEO and active oversight by the board are key to the steadfast focus required.

Consider the iconic U.S.-based Deere and Company, which operates in the highly cyclical agricultural equipment industry. One reason the company has survived many catastrophic downturns and forged on, decade after decade, is its long-tenured CEOs. It has had just 10 CEOs in its 183-year history. Samuel Allen, Deere's CEO from 2009 to 2019, was with the company for his entire 45-year career. During his time at the helm, Deere saw the worst down cycle in half a century. From 2014 to 2016, the prices of key agricultural crops fell, U.S. farm income declined, and farmers put off buying new equipment. As sales slumped, industry analysts became skeptical about Deere's prospects. But Allen remained true to the company's long-term strategy of being a leader in precision agriculture—the practice of combining farm equipment and technology to help farmers increase yields and profitability in an efficient and

environmentally friendly manner—a goal set by his predecessors in the 1990s. He adhered to strict cost discipline to manage the immediate financial pressures but continued to make acquisitions and R&D investments of about 4% to 6% of annual sales to build digital capabilities, even in the most difficult years.

As Deere pursued this strategy, incumbency provided it with a set of advantages: an immense installed base and a reputation that extended back more than a hundred years. Farming tends to be a multigenerational business, so customers know Deere as the company behind the steel plow that transformed the Midwest into an agricultural heartland. Deere had built on this legacy of innovation to modernize its value proposition. By outfitting its products with automation, telematics, computer vision, GPS, and sensors, it helped farmers produce more, reduce costs, increase efficiencies, and boost their profitability and growth. In the early 2010s, Deere began focusing on game-changing digital technologies such as artificial intelligence and machine learning, which made farming decisions on a plant-by-plant level in real time. For example, Deere's recent acquisition, the California-based Blue River Technology, integrates computer vision and machine learning to enable farmers to spray pesticide only on weeds.

Selling farmers on new technologies isn't easy: They tend to be conservative and frugal. However, Deere persevered, using its deep knowledge of customers to target leading-edge farms for initial adoption, establishing proof that technology helped them operate more efficiently, and then spiraling out to the rest. But

Deere sought to do more than merely optimize input and maximize output for farmers. Its bigger motivation is a global reality: Given that the world's population is expected to rise to 9.7 billion by 2050, agricultural yields will need to double to produce enough food to meet demand then with the same amount of arable land in use today. Precision agriculture isn't just a product strategy; it's a way to sustain the next generation.

Leveraging Trusted Customer Relationships to Expand into Adjacencies

One potent enabler for redefining the playing field that we observed is *trust*. Strategic incumbents build on strong relationships to have deep conversations with stakeholders about how their needs are evolving, critical issues that should be addressed in the future, and the interests that they and the company have in common.

One firm that did this was A.P. Møller–Maersk. The name of the 117-year-old company adorns cargo ships all over the world. (Maersk's *Alabama* attracted worldwide attention when it was seized by Somali pirates in 2009, an event that became the subject of a movie starring Tom Hanks.) When Søren Skou took over as its CEO, in 2016, he was tasked with one of the biggest transformations in European industry. He jettisoned Maersk's oil and energy businesses in order to focus the company on two pillars—marine shipping and land-based logistics.

The Danish behemoth knew that it had to protect its superiority in shipping—the heart and soul of the company. Maersk had pioneered large-scale container shipping back in the 1970s, repeatedly setting and breaking world records with the launch of ever-bigger container ships. However, the industry had been plagued by commoditization, volatility, consolidation, low margins,

and the longest downturn in six decades (2008 to 2016). Against this backdrop, Skou's strategy was to create value for customers by connecting and simplifying their global supply chains, instead of just moving containers from port to port. The opportunity was immense, since Maersk transported one-fifth of all seaborne freight but sold land-based logistics products to fewer than 20% of its ocean-shipping customers.

However, the company's traditional capabilities in shipping alone would not drive new value propositions. So Maersk hired new talent, restructured its logistics arm, and invested in M&A to build its logistics capabilities. The company made a big shift from a supply-driven approach (pushing its products to customers) to a demand-driven way of doing business, creating offerings to address customer needs and pain points. Says Vincent Clerc, the head of Ocean and Logistics for Maersk, "We are getting into a solution model where the customer need is at the heart of the proposition. We take away the hassle, combine different ocean and land-side products, make it work, and take accountability for the outcome." But what gives Maersk the ability to win? Part of its advantage lies in asset ownership, which translates into control over the outcomes it promises to customers, and its ability to orchestrate end-to-end visibility through a wide array of data, such as real-time information on inbound and outbound cargo, shipment tracking, bottlenecks, the impact of weather on shipping routes, and delivery schedules.

Technology was key to achieving that shift. The company started integrating digital innovations that allowed customers to go to Maersk.com to get

prices, make bookings, handle documents, and make payments.

Incumbents often look with envy at agile new entrants that don't have to contend with the burden of legacy systems. But in doing so, they fail to recognize their edge. That was not the case at Maersk, however. It saw that its longtime shipping business and existing relationships with thousands of customers gave it a tremendous advantage as it expanded into land-based transport—and within the short span of four years it had redefined its value proposition and moved into a new market.

Why So Many Companies Play Defense

What keeps companies and leaders stuck in the passive mode that prevents them from leveraging the advantages of strategic incumbency? We've noticed five syndromes that tend to derail efforts to adopt a more active posture:

- Senior leaders resist addressing (and often outright deny) the causes of inertia, primarily because doing so would involve dismantling the very structures they have meticulously put in place. A global consumer products company that we worked with, for instance, had slow growth in emerging economies because it relied totally on its own high-cost manufacturing facilities, which couldn't deliver products at the desired price points for those markets. Instead of pivoting to comanufacturing and copackaging with local partners, the company's leaders kept defending the sunk costs in its facilities and arguing that local partnerships would dilute product quality.

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If an organization is falling behind, it needs to change its tactics, change its pace, or change the players.

- An “us versus them” mentality takes hold when the top management drives people out of their comfort zones. By pushing too hard, leaders can demotivate people.

- When change efforts do begin, they often suddenly lose momentum. That’s why leaders need to assess those efforts midway, as coaches do at halftime, and ask: Are we winning, or are we losing? If an organization is falling behind, it needs to change its tactics, change its pace, or change the players.

- Companies devote the most attention to the “D” in R&D—that is, incremental product improvement. In contrast, strategic incumbents invest in dramatically different value propositions or business models—projects that require more-substantial research investments. Securing funding for such far-out ideas can be difficult because the business case is hard to prove and the associated risks are significantly higher. Often risk-aversion results in a wait-and-see approach or spreading R&D too thin across multiple projects.

- Even when companies do devote energy and resources to bold reinvention efforts, too many isolate them from the core business. They set up a new unit dedicated to disruption in a remote location, with a flexible structure and a new leader; staff it with new talent; and give it different performance metrics (such as the number of new ideas seeded, new concepts proved, or partnerships formed with start-ups). The logic for this separation is to protect the fledgling venture from being crushed by the incumbent mindset, business model, and operating processes. However, this approach only highlights how hostage large companies

are to incumbent liabilities. The disadvantages of separation invariably become clear when companies attempt to scale up their innovations by integrating the new unit into the core business. Most of the strategic incumbents we studied, however, avoided shunting their change agents and innovation efforts off to faraway skunkworks and kept them integrated with the primary business.

COMPANIES THAT ARE plugged into their customers gain insights that can help them shape the future of their industries. The question is whether they can overcome inertia to act in time. Here the role of the leader is critical in moving an organization from passive to active incumbency. Leaders need to ask questions, constantly scan outside their own industry, seek successful growth models, and follow through on new pathways with commitment and patience. They must take accountability not only for creating the new but also for transforming the old, ultimately achieving strategic congruence between the two.

Despite the prevailing ethos that disruption is their inevitable fate, large legacy firms do not need to wither and die. Instead they must learn to tap into their inherent strengths and behave like strategic incumbents. ©

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Persuade Your Company to Change Before It's Too Late

How to make the case when the evidence isn't yet clear

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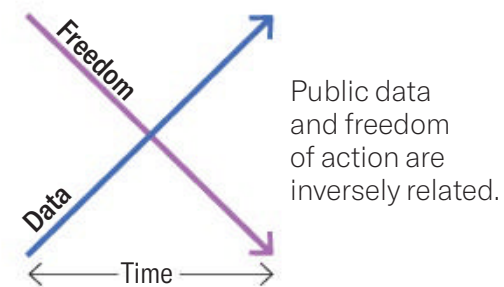
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THERE'S A PARADOX facing leaders seeking to transform their organizations as they see their markets begin to change. On one hand, they need convincing data to make the case that transformation is necessary—to show that their companies are about to find themselves on “burning platforms.” On the other hand, by the time public data about disruptive trends and market

The Information-Action Paradox

The more data that's widely available in a market, the lower the freedom to act on it becomes, because others see the same opportunities and risks and respond to them. The information threshold is not the same at every company. An entrepreneur like Ellen, who doesn't have much business to lose or many stakeholders she has to get buy-in from, can act with less information. But an executive of a more risk-averse established company, like Chris, needs more information to persuade himself and his stakeholders that bold moves are necessary.



shifts is convincing, the window of opportunity has shrunk, if not disappeared. And when companies actually *are* on burning platforms, their leaders confront a harsh reality: Burning platforms inhibit change by increasing rigidity at the very moment when flexibility is crucial. The lesson: Avoid ever ending up on a burning platform. But that requires leaders to act before compelling data is widely available.

Berkeley Cox, Michelle Mahoney, and the rest of the leadership team at the Australian arm of King & Wood Mallesons (KWM), a global law firm, faced this exact problem several years ago. They were starting to pick up signals that their law practice needed to change dramatically, but convincing data was still scarce. The three of us worked with KWM Australia to generate and interpret what we call “private data,” or unique insights that clarified the change brewing beneath the industry’s surface. This article describes the approach we took and details specific methods other leaders can use to similarly motivate their organizations to address shifts before the evidence of them is abundantly clear.

The Nature of the Challenge

Business leaders face a problem that’s familiar to investors and political leaders: In periods of uncertainty the availability of information and the freedom to act are inversely correlated—or, in simpler terms, as data increases, your ability to act decreases.

Let’s say your company is deciding whether to commit a large amount of its resources to entering a new market such

as driverless cars. As competitors’ moves and degree of success provide information about the market (its size, profitability, and growth rate), they simultaneously constrict your freedom to seize opportunities in it; with each move your rivals are building difficult-to-replicate capabilities and establishing strong positions in the most attractive market segments.

We have created a simple conceptual model to help companies map out where they stand when it comes to their knowledge and their ability to act. We call it the *information-action paradox*. A thought experiment contrasting Entrepreneurial Ellen and Corporatized Chris illustrates how it works. (See the exhibit “The Information-Action Paradox.”) Entrepreneurial Ellen has a low threshold of proof, meaning she is willing to act with a low amount of data. Why? Well, she’s an entrepreneur! She doesn’t have to convince a wide range of stakeholders of the need to act. She’s also starting with a blank sheet of paper, so she doesn’t worry about the effect her actions will have on her established operations. She can take bold, intuitive risks. Corporatized Chris has a higher threshold of proof, for three reasons. First, he has basic human biases such as status quo bias (the inclination to keep things the way they are) and loss aversion (the tendency to care more about avoiding losses than about receiving equivalent gains). While Ellen innately has those biases too, she hasn’t yet established her business, so she doesn’t have much to lose, and she is hoping to create a status quo worth preserving. Second, Chris has to deal with multiple stakeholders who reinforce his biases. And finally,

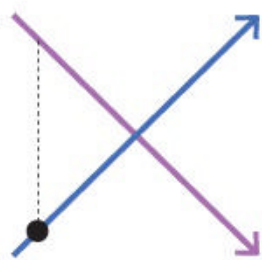
his organization makes decisions using traditional financial tools, which further bias organizations against investing in innovation, according to Clayton Christensen, the late Harvard Business School professor who cofounded our firm, Innosight. (See “Innovation Killers: How Financial Tools Destroy Your Capacity to Do New Things,” HBR, January 2008.)

It’s possible, of course, that Ellen is wrong, in which case Chris can say, “I told you so.” However, if she is right, by the time the data crosses Chris’s threshold of proof, his company will be on the proverbial burning platform. And by then, Ellen and other entrepreneurial leaders will have carved up the most attractive market spaces, built technology advantages that are expensive to copy, hired the best talent, and so on.

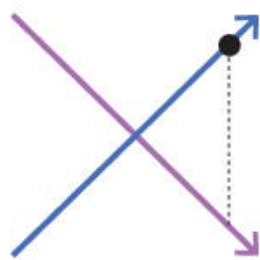
The Situation at KWM

Back in 2018, Cox was in his second year as the elected leader of about 150 partners and 750 lawyers at KWM Australia, a partnership that serves corporate clients, including many blue-chip organizations, in that country. Mahoney, a 20-year veteran of KWM with deep technological expertise, was in her third year as KWM Australia’s executive director of innovation.

Four signs suggested that significant change was coming to the market. First, the number of companies promising to use technologies such as machine learning to deliver routine legal services more effectively and efficiently (known as “legal tech”) was on the rise. Second, many clients, tired of high bills, had built internal capabilities to handle significant chunks of legal work. The



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increased sophistication of in-house counsels made them more open to alternative solutions that would deliver better value. Third, leading accounting firms such as KPMG and PwC, attracted by the margins earned by law firms, had publicly announced their intent to build up their own legal services practices. Fourth, young lawyers were expressing more and more frustration with long hours of often mind-numbing work such as proofreading documents and cross-checking citations, prompting firms to try to address the historically backbreaking nature of the associate job.

Cox was certain that those dynamics posed a material threat to the firm's fundamental operations. But his personal conviction wasn't enough to get the firm to take bold steps to counter that danger. That's because the kind of core transformation KWM needed wasn't about making a daring leap into a new market, like Amazon's entry into cloud computing. Nor was it about reshuffling a portfolio of offerings, as Intuit did when it bought Mint.com and sold its personal-financial software package, Quicken. Such major moves can be driven by an individual's vision or a small team of decision-makers. But KWM Australia could change its way of operating only if all its partners and lawyers started thinking and acting differently, and they had no obvious pressure to do so. KWM was firmly positioned as a top-tier firm in Australia, had a strong balance sheet, and was considered an employer of choice by Australian law school graduates. In short, its business was strong, and other public indicators such as industry associations' market growth forecasts suggested it would stay healthy.

Cox knew he had his work cut out for him. "Lawyers are risk-averse by nature," he notes. "That's why they're good at what they do. They also look for perfect information to make decisions, but in this environment, as in many environments, information is not perfect." If Cox waited until perfect data validated his intuition to change course, it would be too late to change course.

This quandary isn't unique to legal services. Think about a university president pushing for distributed digital education. "What about student outcomes?" faculty members will say. Once edutech providers demonstrate conclusively that distributed digital education provides equal or superior learning outcomes, opportunities for universities will narrow. Or consider the head of a chain of automobile service stations who thinks the business should pivot to caring for electric vehicles. Though it seems like a pretty good bet that the number of electric vehicles on the road will someday surpass the number of vehicles with internal combustion engines, exactly when is uncertain. And if the head of the chain waits until that moment arrives, other entrants are very likely to have already seized the opportunity.

Building Collective Conviction at KWM

So how can leaders get their companies to act before their businesses are on bona fide burning platforms? By generating private data (as KWM did) and lowering the threshold of proof.

Generating private data. As we've noted, public data, the kind found in industry reports, rarely produces the

will to act early. But private data can be a game changer.

There are three broad categories of private data. The first is *qualitative data*. This includes testimonials from customers who provide insight about their future actions and behind-the-scenes stories of purchasing decisions that were "near misses"—meaning customers almost made a different choice. It also includes research that hasn't yet been published in scientific journals and proprietary intelligence on the progress of start-ups that are still operating in "stealth" mode. Yet another useful source of private data is recently hired employees, who often are more closely connected to market-shifting trends.

The second category is *quantitative data*, such as analyses of purchasing behavior in specific customer segments or analyses that track shifting market sentiment by identifying patterns in comments on chat boards or employee review sites like Glassdoor.

The final category is *proprietary models* that process and analyze data in unique ways. For example, a financial model that predicts the future impact of not taking action to deal with trends today can surface the hidden risk in continuing to follow the current strategy.

KWM Australia's extensive analysis of its proprietary client data showed that the firm's overall growth masked its commercial challenges at the low end of the market, where disruptive change often begins. The firm also developed client case studies using detailed "voice of the client" interviews, which further illustrated changing industry dynamics. They revealed, for instance, that the gap



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between the quality of KWM's work and the work of emerging competitors was perceived to be narrowing rapidly.

When such private data is shared at the right time in the right way (more on that in a bit), it can help make industry disruption feel much more front and center than it appears in the public data and thus can strengthen the collective resolve about the need for change.

Lowering the threshold of proof.

Even the best private data is unlikely to produce a level of certainty close to that generated by a detailed financial model whose inputs are all demonstrated facts.

There are two ways to lower the threshold of proof enough to motivate an organization to take early action. The first is to use frameworks and models to make sense of incomplete information. The information-action paradox framework served this purpose at KWM Australia. In the first half of 2018 we shared it at two major partner meetings and asked the partners to discuss the question "How far to the right are we on the chart?" It was a simple way to make people more aware of why it was so hard to make decisions during uncertainty. It also helped the group realize the degree to which a significant number of colleagues *already* felt that change was crucial. For example, in one meeting almost 20% of the 110 attendees said that the firm was now on the right side of the model, where there was more than enough data to suggest it was imperative to act. The people pushing for change, it turned out, had access to their own private data from conversations with current and prospective clients. That information, however, was locked in their individual heads. Once they shared

it with everyone else, momentum for change began to build.

Another framework that helped KWM interpret faint signals was Christensen's disruptive innovation model, which shows that disruptive change often starts in less-demanding market segments or among customers that have historically lacked the skills or wealth to consume existing solutions (people Christensen called "nonconsumers"). After explaining this model to groups of the firm's leaders, we outlined specific indicators that an industry is in the early stages of major upheaval. Then we shared the insights generated from the firm's private data and asked each group to discuss the degree to which they amounted to early warning signs. The disruptive innovation model helped people spot trends that might otherwise be dismissed as the usual gradual churn of the market. And with each meeting the collective conviction that there was indeed a clear need to change grew.

A second way to lower the threshold involves techniques that help groups align around a course of action in the face of uncertainty. At KWM Australia, we drew on tips described in the November–December 2018 HBR article "Unite Your Senior Team" (which one of us, Anthony, coauthored). A key enabler was developing a common language around select strategic issues. The firm's partners had robust discussions about what various terms, such as "legal tech," meant. This is critical because when a team doesn't take the time to precisely define language, people often simply talk past one another.

It's also crucial to ensure that there's space to surface and debate key areas of

misalignment. One memorable example of this came during a February 2018 meeting of the board of KWM Australia. After hearing about key disruptive trends, board members were asked to give their view on how much of the profit pool should be invested in innovation. They shared their individual estimates using a mobile-phone-based polling app. Answers ranged from roughly 1% to 10%. We then asked the directors who gave the highest and lowest numbers to explain the assumptions underpinning their responses. The discussion helped highlight divergent viewpoints on topics like the degree to which partners closer to retirement would be willing to invest in the future and the pace of disruptive change. ("We've been talking about change for 20 years," one board member said. "Why will it be different this time?") That helped the board determine what private data would be most critical for subsequent discussions.

Signals in private data can often be dismissed as market noise. That's why it's important to look at it in structured discussions. At KWM Australia these helped the partners agree on where the industry was, the pace of change, and what that meant for where the industry would be in the future. A summary question—"Does anyone think that the legal industry won't change significantly in the next five to 10 years?"—helped cement the conviction to act while there was still time.

The Impact at KWM

It took KWM Australia about a year to get everyone on the same page. (Leadership didn't expect or demand an overnight



Public data, the kind found in industry reports, rarely produces the will to act early. But private data can be a game changer.

shift.) While Cox and his team, with input from our firm, created a draft perspective about the future direction of the law firm, they also created space for discussion, debate, and disagreement, allowing collective ownership of the need to change to spread through informed dialogue. Eventually the partners came to the consensus that to navigate market disruption and deliver better outcomes for clients, the firm had to become tech-enabled and infuse cutting-edge artificial intelligence and smart-contracting tools into its day-to-day practices. With Cox, Mahoney, and Mark McNamara, a senior partner who headed the private equity practice, playing key leadership roles, KWM launched a three-pronged effort to advance its transformation.

First, it introduced targeted behavioral interventions to encourage the adoption of productivity tools. They included a program called “Use It or Lose It,” which allowed lawyers to get credit against their billable-hour targets for up to 30 hours of training, experimentation, or coaching on legal tech.

Second, the firm created programs to support its transformation. One of them tackled the way the billable-hour model can implicitly penalize efficiency and make using technology appear to be against a lawyer’s best interests. To address that, KWM introduced a “multiplier” model, which increases the weighting of tech-enabled hours worked by lawyers. A lawyer who does 10 hours of work using artificial intelligence to review a contract might get credited with 15 hours of traditional work (without any additional cost to the client). That program was coupled with broader moves

toward fixed-fee engagements that further encouraged the use of technology.

Third, KWM Australia implemented a comprehensive communication program. For example, in November 2019 Cox and McNamara laid out the logic behind the case for change in a 3,700-word document that was organized into eight sections followed by two appendices. The firm also engaged a communications change specialist (a novel approach for a law firm) to simplify key messages and communicate them clearly and consistently across the organization. And it asked newly elected partners to evaluate warning signs of disruptive change and describe the future business model of their practices.

By September 2021, KWM Australia had made significant progress in its effort to transform itself. Nearly 300 fresh graduates and young lawyers (about 30% of the staff) had gone through its “digital-literacy boot camp.” The firm had invited many of them to act as “reverse mentors” for more-seasoned lawyers. It had removed billable-hour targets for newly hired lawyers, a clear sign to the market that it intended to thoroughly transform an operating model that had been successful for more than a century.

By that time the multiplier model had gained traction and had been used by teams of lawyers serving close to 500 clients. The firm had also built a centralized transformation hub that housed more than 130 videos exploring various aspects of legal technology and providing case studies and had dubbed more than 100 lawyers who had demonstrated proficiency in digital transformation

and emerging legal technologies “digital legal eagles.” A high-profile award ceremony had shone a spotlight on teams that had pushed the technological frontier and transformed the client experience. And earlier in the year, in recognition of its digital-first approach to client service and people management, KWM had been named the most innovative law firm in Asia-Pacific by the *Financial Times*.

Remember, all this took place inside a law firm that faced no obvious reason to change given its strong performance, happy clients, and sterling reputation as an employer of choice in the industry.

A RECENT CROSS-INDUSTRY survey of more than 300 global leaders conducted by Innosight found that 72% felt that they needed to transform their core offering or business model. The most pressing obstacle to success cited by this group was allocating enough resources to change efforts—an indication that their leadership teams lacked the conviction to take action. As the KWM Australia story demonstrates, generating private data and lowering the threshold of proof can help leaders build such conviction before the need for change becomes glaringly apparent. This approach can accelerate strategic transformation and save businesses from ending up on burning platforms. 🔄

HBR Reprint S22013

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Can Big Tech Be Disrupted?

A conversation with
Columbia Business
School professor
Jonathan Knee

OVER THE PAST decade leading tech companies—notably Meta (Facebook), Alphabet (Google), Amazon, Apple, and Microsoft—have come to dominate their respective segments in most parts of the world. Some stats: Meta, which also owns Instagram and WhatsApp, has 3.5 billion users across its networks. More than 50% of global online ad spending goes through Meta or Alphabet. In search, Google has more than a 60% share in the United States and more than 90% in Europe, Brazil, and India. Apple earns more in annual profit than Starbucks makes in revenue. Microsoft

is a top-three vendor to 84% of businesses. And Amazon takes in more than 40% of online spending in the United States and runs nearly one-third of the internet through Amazon Web Services. Collectively, the Big Five earned income of about \$197 billion on revenue of more than \$1 trillion in 2020, while their market cap rose to \$7.5 trillion by year's end.

These companies are so successful—and generate so much consumer data and cash—that it sometimes feels as if they can't be stopped. Not only have they been on the cutting edge of technology, but now they also have the power of incumbency. Yet according to Jonathan Knee—who is a veteran investment banker specializing in media and tech, a Columbia Business School professor, and the author of *The Platform Delusion: Who Wins and Who Loses in the Age of Tech Titans*—even digital superpowers face threats, from start-ups as well as seasoned competitors. In this conversation with HBR executive editor **Alison Beard**, he analyzes the strengths and weaknesses of the large tech companies and the strategies they might use to defend themselves.

HBR: So you don't think we're heading toward a world in which the "tech titans" dominate every part of our lives?

KNEE: Today many people in the industry, as well as academics and investors, seem to think that the large tech platform companies uniformly benefit from strong network effects, which inexorably propel them toward global dominance. But that is demonstrably false. Let's start with the notion of scale. The traditional view is that it helps companies by spreading fixed costs. The new,



sexy scale on the internet comes from network effects, and people argue that it offers an inherently superior competitive advantage. But that's crazy. In the absence of significant fixed costs, any network-effect-driven business is going to attract competition from new platforms that find they can break even at extremely low usage levels. Also, network effects are not the primary driver of competitive advantage at most of these companies. At Facebook, now Meta, yes: The more users it has, the better the experience of connecting and sharing is. For Microsoft, yes: Operating systems are a classic network-effect business. But the original success of Apple, Google, Amazon, and Netflix did not rest primarily on network effects. Apple is a consumer-products business. Google benefits from massive fixed-cost requirements reinforced by continuous learning. Amazon's original retail business, which still accounts for a majority of its revenue, has no network effects to speak of, and neither does Netflix. All these companies will live or die by the same principles of competitive advantage we've long studied. Don't get me wrong: These are all very good businesses, but each is good for different reasons involving multiple reinforcing advantages rather than a uniform silver bullet. And each has its own vulnerabilities.

Walk me through their respective strengths and weaknesses. Let's start with Google. I'd argue that it's the strongest of all the tech titans, in part because search was an entirely new market without an entrenched incumbent. Although Google wasn't the first search engine, it was the first and only one to

achieve massive scale. It also has the best, most well-defended portfolio of reinforcing competitive advantages in that core franchise. But in my view, it sucks to a surprising degree at anything much beyond that business. Yes, it has reorganized and instilled more operating discipline in other areas, but its list of failed launches, from the Nexus smartphone to Google Glass, is long. And its efforts to directly challenge the other tech giants have either collapsed completely or significantly lagged. Google+ was a short-lived challenge to Facebook, and Google Cloud remains far behind Microsoft's Azure in taking on Amazon Web Services. I don't think that's a coincidence. When you dominate one segment of the market so overwhelmingly, you're less likely to build a culture that is optimized to find new ways to grow outside it.

Facebook, now Meta? It benefits from being the world's largest social network and has for the most part invested wisely internally and managed its acquisitions well—for example, by snapping up Instagram early and keeping it as an independent platform—while still expanding its trove of user data and strengthening customer stickiness. But recently exposed internal emails demonstrate that the company is nonetheless well aware of serious threats from competing “social mechanics.” We're also still waiting to see any ROI on its \$19 billion purchase of the messaging app WhatsApp, which almost a decade later remains unprofitable and lacks a real revenue model, and the \$2 billion it spent on the virtual reality firm Oculus. And the company is increasingly under fire for its role in spreading misinformation and

hate online, which could cause it to lose credibility among users, advertisers, and the next generation of social networkers.

Amazon? Did it disrupt Walmart? Absolutely. But Walmart is still a major competitor today, and Amazon is fighting against not only incumbents with established brick-and-mortar footprints and growing online sales (with free shipping to rival Prime) but also focused start-ups like Chewy and direct-to-consumer producers. Retail remains a difficult, highly competitive business where sustainable advantage is limited. The company has also made some questionable acquisitions: Whole Foods, when grocery is a structurally challenged category, and MGM, in an ill-advised bid to make Prime Video a real rival to Netflix. Investors may think MGM is worth it if only to halt Amazon's relentless increases in wasteful spending on original content. Yet despite missteps Amazon has a culture of relentlessness and unlike the other tech titans has built some wildly successful unrelated businesses, such as Amazon Web Services, that do lend themselves to strong competitive advantage—in contrast to e-commerce. AWS generates a majority of the overall company's profits and will probably continue to do so for the indefinite future.

Why did you look at Netflix, too? Netflix is a minor player relative to the rest of FAANG [Facebook, Amazon, Apple, Netflix, and Google] but is often mentioned alongside the others because it's number one in a space—streaming media—that they all think they need to be in. Netflix also has an intense culture of operating excellence. But



Can Big Tech Be Disrupted?

its business model is nowhere near as strong as the models that the traditional cable channels it is increasingly replacing used to enjoy. At one time those businesses had fabulous high margins because they benefited from long-term contracts and capacity constraints. Direct-to-consumer streamers like Netflix, by contrast, face relentless customer churn and constant competition from new entrants, including Apple and Amazon and old-timers like HBO, Disney, NBC (with Peacock), and CBS (with Paramount+).

And what about the elder statesmen of the Big Five: Apple and Microsoft?

Personal technology was a thriving business before the Big Tech era. Apple did not and does not lead by market share in the key product categories. But in its primary business, smartphones, while it's not the biggest, it is the biggest money-maker—commanding more profits than the rest of the smartphone industry combined—and has the highest market cap, more than \$2 trillion. The App Store and Apple ecosystem have created extraordinary shareholder value by monetizing its high-end niche.

Apple's expertise lies in developing revolutionary, sleek devices, but the people who created the ones that define the company are gone. The fact that the company is trying to get into the health care and automotive industries—where it has no track record and innovative incumbents abound—suggests that it realizes it needs to plan for its next act. Though it's had a terrific run, in the absence of the next generation of revolutionary gadgets, Apple's continued financial dominance is by no means assured.

Microsoft, unlike the other tech giants, has always concentrated on B2B rather than consumer markets. After losing its way and ceding the mobile OS market to Google and Apple, it has refocused on improving its core software offerings and expanding its footprint within its corporate customer base while aggressively embracing the cloud. It has established credibility by using data from cloud-based applications to increase its responsiveness and continuously improve. But it faces new competitors that are both massive and nimble, such as Salesforce, whose acquisition of Slack threatens Microsoft's ambitions in workforce productivity applications.

What advice would you give executives or entrepreneurs trying to topple a tech titan or at least take a portion of its business?

I'm a big believer in starting small. You want to focus on customer pain points within clearly identifiable, manageable communities where you can quickly build scale and earn loyalty. The growth paths of most great businesses look like ringworm—they started with an inner ring and built out to the next ring of customers and then the next. When you have a targeted market, there's also a greater chance that it won't attract or support competitors and that the specialized data collected is more valuable. Often these are customers that the giants can't effectively serve. Consider 1stDibs, a marketplace for luxury antiques, art, and designer furniture, or Etsy, where people sell handmade crafts. Both eBay and Amazon have tried to attack those markets, but neither the merchants nor the consumers drawn to 1stDibs or Etsy want to navigate a more general marketplace. Those

younger companies might have plenty of serious competitors in the future—Chairish is already one—but Amazon probably won't be among them. TikTok is another great example of a start-up that found a niche product (short videos) and a demographic (Gen Z and now Alpha) that allowed it to effectively compete with all the Facebook (or Meta) platforms, Twitter, and YouTube. And if Microsoft had developed a product as solid as Teams in an earlier time, no one would dare try to take it on, yet today it must contend with Slack in team collaboration tools and Zoom in videoconferencing.

And what would you say to leaders of tech giants about defending against disruption?

Watch your flank. Be vigilant about getting niched to death. Competitors will try to gain relative scale within certain interest groups, demographics, or geographies, so you need to be constantly innovating and releasing new versions of products that leverage your strengths while serving narrower communities. I'd also tell them to manage their ecosystems in a more constructive way so that the people up and down the value chain have a vested interest in their continued success rather than going to sleep every night hoping for their destruction. That's an underappreciated aspect of long-term strategic survival.

Finally, I'd suggest they be proactive and thoughtful in engaging with governments and helping them achieve their policy goals. All these companies have incredible resources that might help solve some of society's biggest problems—including those they had a hand in creating. To always be in a defensive posture—or lobbying for as little regulation and taxation as possible—is a lost opportunity. Together or separately, the tech giants should partner with the public sector on projects that in the short term might be financially costly and limit flexibility but will yield longer-term benefits. ©

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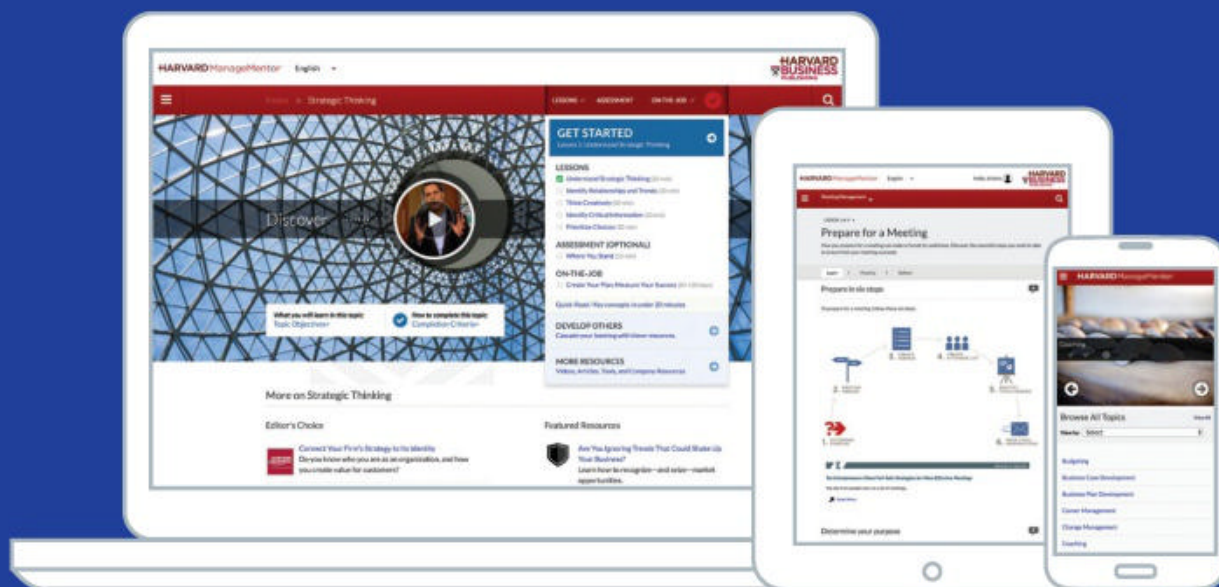
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Features

"It's easy to revert to childhood patterns in the office. There you are, meeting with your peers, and you find yourself behaving as you so often did in sibling free-for-alls."

"FAMILY GHOSTS IN THE EXECUTIVE SUITE,"
PAGE 92





Reinventing Your Leadership Team Your organization's future depends on getting this right.



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As companies strive to build competitive advantage in a world obsessed with digitizing (which is often a must but rarely differentiating), they find that what they need from their leaders is changing. Their top people must be able to reimagine the company's place in the world and transform the organization to live up to a more ambitious purpose. That will mean fundamental change not only in the executives themselves but also in how they collectively manage and lead the firm.

Consider, for example, how the skills that leaders need for success have evolved—and the degree to which many executives are seen to struggle with these new demands. A recent survey conducted by Strategy&, PwC's global strategy consulting business, highlighted the importance of balancing certain characteristics that on the surface look paradoxical. We used to accept, for instance, that leaders could be either great visionaries or great operators. No longer. Companies now need their top people to perform both roles—to be strategic executors, in other words. They're also expected to be tech-savvy humanists, high-integrity politicians, humble heroes, globally minded localists, and traditioned innovators (see the exhibit "Six Paradoxical Expectations of Leaders"). Not only did large majorities of the survey respondents agree on the importance of those roles, but they also voiced alarming concern about leaders' lack of proficiency in them. Addressing a company's leadership gaps, however, is not merely a matter of building individual executives' skills. Although that's certainly desirable, the need to improve collective leadership is urgent.

As part of the research that led to the book *Beyond Digital*, from which this article is adapted, we interviewed senior executives at 12 prominent firms (Microsoft, Inditex, Hitachi, and nine others) and gleaned insights as to why expectations for leadership have changed. It is clear that if companies are to thrive in the years ahead, they must build new forms of advantage rather than just digitize what they are doing today. Accomplishing that means being ready to shed past belief systems and define new, bolder value propositions. Companies have to switch from competing

IDEA IN BRIEF

THE PROBLEM

To thrive in our increasingly complex world, companies must move beyond digitization and reimagine what they do to create value. But most leadership teams aren't set up to transform their organizations and position them for success in the future.

THE WAY FORWARD

CEOs need to fundamentally rethink their leadership teams so that their top executives focus on advancing meaningful change rather than managing the current business.

THE STEPS TO FOLLOW

CEOs should identify the leadership roles needed to shape the future of the company, put the right people in those roles, emphasize the drive for transformation, and take ownership of their top team's behavior.



ABOUT THE ART

Cape Town-born photographer Alice Mann explores the aspirational and empowered world of all-female teams of drum majorettes in South Africa, affectionately known as “Drummies.”



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with rivals to cooperating with partners in networks and ecosystems to create value in ways that no single organization can manage alone. Leaders need to be willing to challenge every aspect of their company: its purpose, its business model, its operating model, its people, and themselves. And conventional ideas about managing have to be inverted. Executives must move away from focusing on their individual areas of responsibility and responding to needs bubbling up from below; instead they must work together as a team to shape the organization's future and steer a path toward it.

In the following pages we draw on the experience of the companies we researched to show CEOs how to build a leadership team that is up to the challenge. This approach has four key components:

► *Identifying the leadership roles needed to transform your company for the future.* For your company to remain relevant, it will need distinct capabilities that allow it to deliver on its purpose, along with leaders who can envision its new place in the world and mobilize it to get there. What positions do you need on your executive team to make that happen?

► *Assembling the right people.* Having identified the roles your team needs, you next have to think about who will best fill them. Which individuals should you bring together so that you have the necessary talent and diversity in the C-suite to generate new ideas, challenge traditional thinking, and collaborate on meaningful change?

► *Focusing your leadership team on driving the company's transformation.* You and your colleagues will need to advance the company's agenda—and that means spending energy and time on the big priorities for the future, not just responding to the demands of the organization today. What structures and mechanisms will help you lead the company to its new destination?

► *Taking ownership of your leadership team's behavior.* Building the distinctive capabilities that will allow you to create real advantage requires a high degree of collaboration and a commitment to developing a team mentality so that the disparate parts of your organization operate as a harmonious whole. How can you build trust and a culture that powers the organization's collective success?

While we've listed these measures in sequential order, you will have to work on them simultaneously, because they reinforce one another. Don't worry about getting everything

right on the first take, including how you establish the team itself. No high-performing leadership team we know was built overnight, nor did it do everything perfectly. But don't let that be an excuse for failing to make substantial progress on all four fronts.

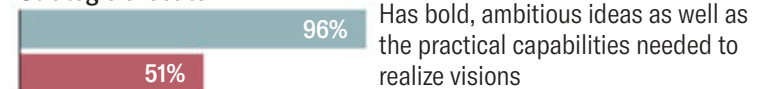
Six Paradoxical Expectations of Leaders

In a 2021 survey of 515 businesspeople from around the world, respondents placed high importance on leaders' ability to balance the paradoxical demands inherent in six key roles. At the same time, they had much less confidence that leaders could effectively manage the tensions involved.

■ % of respondents indicating that both elements of the paradox are important or critical to the company's future success

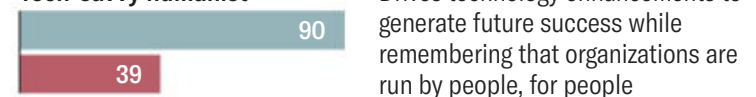
■ % of respondents indicating that top leaders in their organization are good or best in class at both elements of the paradox

Strategic executor



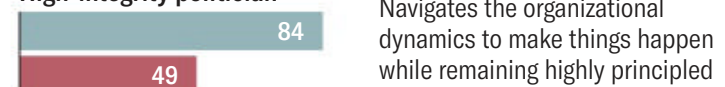
Has bold, ambitious ideas as well as the practical capabilities needed to realize visions

Tech-savvy humanist



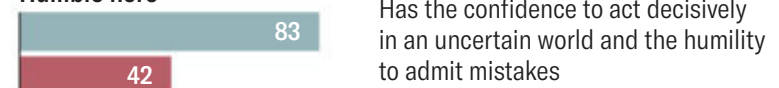
Drives technology enhancements to generate future success while remembering that organizations are run by people, for people

High-integrity politician



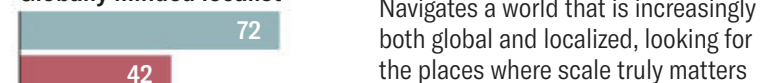
Navigates the organizational dynamics to make things happen while remaining highly principled

Humble hero



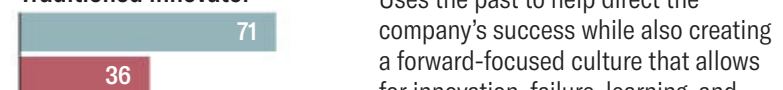
Has the confidence to act decisively in an uncertain world and the humility to admit mistakes

Globally minded localist



Navigates a world that is increasingly both global and localized, looking for the places where scale truly matters

Traditioned innovator



Uses the past to help direct the company's success while also creating a forward-focused culture that allows for innovation, failure, learning, and growth

Source: Strategy&



Identify the Roles You Need

When CEOs look at the organizational capabilities their company must have to create value in the beyond-digital world, they often conclude that they have to add some nontraditional leadership positions and eliminate a few traditional ones. That has led to an explosion of new C-suite titles in recent years: chief innovation officer, chief data officer, chief sustainability officer, chief analytics officer, chief behavioral officer, chief brand officer, chief customer officer, chief design officer, and so on.

What's important, however, is not the titles but the fact that these roles focus the organization on the capabilities that are critical for delivering on your emerging value proposition. Those may involve working collaboratively with external partners. Microsoft, for example, put in place a corporate vice president for One Commercial Partner, a program to simplify its engagement with other companies that sell and support Microsoft products. The decision to create this senior role reflected the importance of the ecosystem to the company's ability to serve customers, and it ensured that partners would be represented in high-level decision-making.

The roles you choose to have on your leadership team send a message about the strategic destination you've chosen and how you are transforming to get there. Apple's creation of the chief design officer position in 2015, for

example, signaled to the organization (and, in fact, the world) that design has huge importance for the company. Establishing the role greatly helped it attract the world's best designers, from the fashion industry and elsewhere, and produced one of the most differentiating capabilities that Apple has ever built.

Getting to a capabilities-based leadership model does not have to be done in one shot via a major reorganization, but leaders often regret not having moved fast enough on key positions. The more your top-team roles are aligned with the outcomes necessary for future success, the better. And if you conclude that you need, say, a chief digital officer or a chief analytics officer for a transition period, don't set up those jobs as "pirate ships" that exist outside the core structure for building and exploiting your capabilities; instead make sure you integrate them with the actual work of your company and the outcomes you seek.

Assemble Your Team Thoughtfully

Having the right roles on your top team isn't enough. You must also fill the positions with the right people—those with the skills, behaviors, and experiences you require. Thinking about the six paradoxical expectations of leaders we mentioned earlier will help. Not everyone on your team has to excel at balancing the tensions involved in each one, but collectively you should have them all covered. Where



do you have gaps? Which capabilities can you develop from within the current team, and which should you bring in from outside?

It's also valuable to have leaders who can see problems and opportunities from a fresh perspective and who hold themselves—and their colleagues—accountable for tackling the most pressing and daunting challenges and realizing your aspirations. You should therefore seek people who look, think, feel, and act differently than is customary in your organization, and you should be open to—and encourage—being challenged. In fact, you might have to stop assessing new hires using the old paradigm of “How will this candidate fit in here?” and instead ask, “How will we fit with this person?” So when you look for the right talent, look beyond the usual suspects. Perhaps your next leader will be someone who once managed an unruly ninth-grade classroom, coached a sports team, or ran a local government.

The people who can steer your company's future do not have to be cut from the same cloth as traditional leaders with MBAs or engineering degrees.

To be clear, we aren't suggesting running a corporate diversity initiative that makes for a colorful page in your annual report, or recruiting atypical individuals out of pure altruism or a sense of social commitment. Those motives may contribute to your thinking, but this is really about strategically building the diversity you need so that your leadership team represents the future your company is



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envisioning. Look for people with varied experiences, who have worked within different ecosystems and understand the capabilities, technologies, channels, and transformational approaches you will be deploying. You want leaders who have demonstrated that they can build and scale up the capabilities you aim to perfect. Your team should also reflect the diverse voices of your total ecosystem—including the customers you seek to serve, your workforce, and your partners. Very likely, those voices will cover a range of gender identities; national, racial, and ethnic origins; abilities; and economic and educational backgrounds.

Carla Kriwet, who formerly led the connected-care business at the health technology company Philips, told us that her leadership team there “sometimes [felt] like the United Nations.” But she considered having such a multicultural group a necessity. As she explained, “If you have a team full of Americans who think of Europe like one U.S. state, that won't work because health care systems and reimbursement models are very different [from one country to the next]. If you only have Europeans, and they don't understand how the large hospital chains in the U.S. work and what their issues are around cybersecurity and safety, that won't work either....Therefore, one of the top requirements for people to join my leadership team was that they needed to...actually have lived [abroad] so they know what the cultural differences mean.”

Focus Your Team on Driving Transformation

One CEO we worked with spoke of feeling ineffectual until he made a fundamental shift in how he managed his work: “I used to spend all of my time responding to other people's issues through email, meetings—the entire day was making decisions related to what others provided. One day I recognized that the only way to *lead* the company was to do the work I felt was required for the organization to move forward.”

Time is the top team's scarcest resource. What are the executives in the C-suite going to focus on, and how will they ensure that the urgent does not crowd out the important? Given the complexities of running a successful business today, it is more important than ever for your leadership team to be very deliberate about how it sets its agenda. It



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must make sure it drives transformation, rather than letting the agenda be driven by requests coming from below.

Leadership teams will always need to manage two distinct responsibilities: running the business day-to-day and building for the future that they've committed to. Philips's CEO, Frans van Houten, explains: "We talk about the need to both perform and transform. If you only transform but don't perform, you have no here and now. If you only perform but don't transform, you have no future. Therefore, in our scorecards we measure both. In our reviews we talk about both. And the targets that I give to all my executives...always [include] some transform objectives."

Some companies create a separate group to manage their strategic transformation effort in order to prioritize and protect it. Usually this group includes many of the executives responsible for operations—and to infuse new thinking, it may even include lower-level employees. Regardless of the governance approach you choose, make sure to hold yourself and your team accountable for addressing difficult questions about how best to shape the future.

The role of the leadership team does not stop with making big choices; senior executives must also see that their decisions are successfully implemented. That's what the "strategic executor" leadership paradox is all about. Your top people will need to get their hands dirty working through the implementation details and making sure that the activities of disparate parts of the organization add up to a coherent whole.

Howard Schultz, the former CEO of Starbucks, understood this. When he ran the company, he envisioned its coffee shops as a "third place" where people would spend time, beyond their offices and their homes. And he got involved in the nitty-gritty of bringing his vision to life—deciding, for example, that employees should grind beans to create appealing aromas rather than using flavor-locked bags of ground coffee. He also had big espresso machines replaced by smaller ones so that customers could more easily interact with the baristas making drinks. He ordered the removal of products near the cash registers, because although they generated revenue, he felt that they detracted from the experience that distinguished Starbucks from competitors such as McDonald's and Dunkin' Donuts. Schultz even helped select the music that would play in the coffee shops.







Take Ownership of Your Team's Behavior

Many companies experience a lot of rivalry in their top ranks. People may compete over who's managing the strongest P&L performance, whose function contributes most to the bottom line, or who will succeed the CEO. This individualist thinking, while rewarded in modern corporations because it sometimes drives accountability, gets in the way of transformation. Your goal should be to have everyone in the executive suite aligned around an understanding of why your company must change, what unique place in the world you're aiming for, and which differentiating capabilities you will need to get there. All your team members have to wholeheartedly own the transformation program and see their personal objectives and agendas tied to its success.

Creating ownership around the vision isn't enough. You must also create a shared purpose: Why does your team exist? What big issues is it here to solve? When defining their areas of responsibility, your people should believe that leading the company through its transformation is their most important task and that success will depend on the collaboration of team members rather than on the sum of individual units' performance. You also need to establish that when the executive team gathers, it is not to approve or reject proposals but to create value together.

Perhaps the most effective mechanism for engineering collaboration is to get pairs of leaders to work jointly on solving companywide issues. As you reinvent for the future, you'll face no shortage of challenges, and meeting them will require the development of complex capabilities across your leadership team. Encouraging pairs of executives to

How to Tell If Your Leadership Team Is Actually Leading

We like to challenge top executives to think through whether they spend their time together really leading the company and propelling growth. Consider the following questions to judge whether you and your team make the most of your meetings.

- ▶ How much of your time is spent running the day-to-day versus shaping the future?
- ▶ How much of your time is spent reacting to what others in the organization bring to you, rather than driving the top team's agenda?
- ▶ How often do your strategic discussions lead you to make hard choices about your company's future?
- ▶ When your team spends time on strategy, do you focus on the external environment or the bold choices that your organization must make?
- ▶ How much time do you spend reviewing actions after the fact versus proactively shaping actions and a direction?
- ▶ How often do you ask people to come back with more-detailed proposals because your team doesn't quite have the energy or the clear vision to be decisive?
- ▶ How often do you spend time debating who is responsible for solving an issue rather than addressing it?
- ▶ How often do you and other members of the leadership team work together on issues?
- ▶ How well do you know your colleagues on the leadership team? Do you get the feeling that they care about your success, and do you care about theirs?

You may be surprised by the answers. Some teams find that more than half their time is spent in rather unproductive ways. Much more significantly, they realize they aren't dedicating the energy to the transformation that will position their company for success in the future.

join forces enables them to merge their strengths, get to know each other better, and gain a clearer understanding of the drivers of success and the constraints that exist in areas outside their own spheres of influence. When they come up with solutions, they can share the praise and see the power of bringing different perspectives to bear on big, complicated problems.

This type of collaboration requires trust, which may be scarce among hypercompetitive senior leaders. CEOs thus need to encourage confidence that everyone is truly invested in the team and its mission. Otherwise a large-scale transformation won't work. Philips's van Houten recounts: "I started to take my executive committee to off-sites...in order to have the difficult discussions, but also the personal reflections.



LEADERSHIP

What are we here to achieve? What does success look like? But also: Why are *you* here? Do you want to be here? And if you are here, can you change your tune in how you transact with each other?"

Addressing how a team behaves is not about getting leaders to like one another and agree. It is about encouraging everyone to put issues on the table, solve problems together, come to decisions quickly, and feel committed to each person's success. That's why effective teams create rules and mechanisms for members to feel comfortable asking for help or calling out their colleagues for not following through on promised actions. At Philips, the executive committee off-sites incorporate speed-dating-style feedback exercises. Each day every member has to connect with five others and share two things: an appreciative comment about the other person and a suggestion to help that person grow in the job.

A MAJOR TRANSFORMATION can't be undertaken by the company's top team alone. The new kind of leadership that we've been advocating will have to cascade downward to build leadership muscle throughout the organization. But the place to start is in the C-suite. Surround yourself with talented people who can balance seemingly paradoxical leadership behaviors and challenge one another to collectively accomplish big things. Most importantly, make sure your leadership team truly leads—setting aside the time and energy to define a bold agenda and launch the ambitious initiatives that your future relies on. Failing to do that will be a costly mistake. Succeed and you will have a powerful team that can position your firm to thrive in an increasingly complex world. 

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the **NEW** **YOU** **BUSINESS**

How to compete on personal
transformations





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ABOUT THE ART

The floral designer Lewis Miller creates guerrilla flower installations around New York in an effort to spark joy throughout the city. More than 90 of these arrangements are documented in Miller's book, *Flower Flash* (Monacelli Press, 2021).

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HE END GOAL OF people who go to fitness centers isn't access to the equipment or trainers; it is to get

in shape. The overriding reason people go to their doctor or check into a hospital is not to obtain drug prescriptions, a medical examination, or therapeutic procedures; it is to get well. And students' primary motive for going to college is not to buy a lot of books, have their papers and exams graded by professors, or even have the classroom and all-around college experience; it is to gain skills or expertise and pursue a career.

But all too often fitness centers, medical providers, colleges, and organizations in many other industries seek to distinguish themselves only on the quality, convenience, and experience of what they sell. It's not that those things aren't important. But they matter only as means to the

ends that people seek. Too many organizations lose sight of this truth. Even when they do promote what they sell in relation to customers' aspirations, they rarely design solutions that allow people to realize them. Instead, individuals must cobble together what they think they need to achieve their goals—for example, a trainer, a particular diet, and a support network to lose weight.

Even though we're all filled with hopes, aims, and ambitions, significant change is incredibly hard to accomplish on our own. Enterprises should recognize the economic opportunity offered by the *transformation* business, in which they partner with consumers to improve some fundamental aspect of their lives—to achieve a “new you.”

How Transformations Are Unique

Creating economic value from transformations requires first a full understanding of what it means to be in the transformation business. It entails:

Selling a distinct economic offering. As two of us (Joe Pine and Jim Gilmore) describe in “Welcome to the Experience Economy” (HBR, July–August 1998), companies (and economies) create more and more value as they shift from selling commodities to manufacturing goods to delivering services to staging experiences. Transformations extend this progression to the fifth level, where companies help customers achieve major change.

IDEA IN BRIEF

THE MISSED OPPORTUNITY

Companies rarely design complete solutions to help consumers improve some fundamental aspect of their lives, forcing them to cobble together what they think they need to achieve their goals.

THE ROOT CAUSE

All too often companies focus on the quality, convenience, or experience of their offerings and don't see their role as becoming full-fledged partners with consumers in their transformation journeys.

THE SOLUTION

Create a transformation business by ascertaining the customer's “jobs to be done,” understanding what success looks like at every point in the journey, identifying barriers, and translating this knowledge into an offering.

Previous page: Raymond Meier. All other images: Irini Arakas Greenbaum



True transformations require complete solutions. But most companies leave the actual change customers seek to their own efforts.





Focusing on the customer's success. The goods, services, and even experiences a company offers matter only in how they help customers achieve their desired results. Each customer's definition of success must therefore be the North Star that guides what a company does if it wants to compete on transformations.

Having a solutions mindset. True transformations require complete solutions. But most companies provide only a small part of what customers need—exercise equipment to become more fit, a sleep app to slumber restfully, a spa retreat to reconnect with one's spouse—and largely leave the actual change customers seek to their own efforts. As a result, customers often fail. By contrast, companies that compete by providing transformations offer everything—on their own or in partnership with others—that customers need to succeed.

That outcome depends on a commitment from each customer to achieve an aim on which he or she and the company agree. This is the approach of Profile by Sanford, a franchiser unit of Sanford Health of Sioux Falls, South Dakota, which guides people to achieve weight loss through a customized, keto-based health and nutrition regimen of six meal occasions a day. (Disclosure: One of us, Jim Gilmore, spoke at an annual Profile franchisee conference for a onetime fee and then became a Profile member and lost 50 pounds in a year. He has no current involvement with the company.) A Profile coach first discusses activity and lifestyle issues in a 90-minute exploratory session with each prospective customer and then explains annual membership pricing. If the person wants to move forward, the coach asks him or her to raise a hand and recite a pledge. Only then does the coach take body and weight measurements and, with the customer, set an initial goal. Interestingly, the pledge does not involve a promise from the customer to lose a set amount of weight; rather, it asks for a commitment to the process, which will involve talking with the coach via phone, streaming chat, or face-to-face for 30 minutes each week for a full year.

The weekly conversations ensure that customers understand the sundry journey maps, nutrition charts, and portion guidelines and also the progress-tracking app furnished to assist them in shopping for and preparing each meal. Over time, they also offer coaches an opportunity to introduce

behavior-change topics such as fostering more exercise (park farther from a destination than normal, for example), adding variety to meal preparations (Profile mixes can make either puddings or shakes), and using tricks to promote new habits (substitute spiralized zucchini for starchy noodles). Instead of dumping all its know-how on customers up front, the company doles out weekly insights from its ever-increasing portfolio of pointers to ensure that customers succeed.

Researchers at Profile by Sanford cite studies suggesting that their approach is more effective than others. A study published in the *American Journal of Health Behavior* by Heontae Kim and five coauthors (two of whom were Sanford employees) found that the more often individuals had one-on-one meetings with their coaches, the more weight they lost; the nearly 8,800 participants lost more than 8% of their weight, on average. Separate research suggests two things: structured nutrition plans that provide participants with support are superior to those that offer only reduced-calorie diets, and personal coaching is more effective than recorded lessons. For example, a study published in *BMJ Open Diabetes Research & Care* focused on Omada, a competitor whose program involves only recorded lessons. It found that individuals in Omada's program lost, on average, 5% of their body weight over 16 weeks and 4.7% over 12 months. A separate study, published in the *International Journal of Environmental Research and Public Health*, found that Profile customers had lost an average of 8.1% of their weight three months into the program and 8.2% over 12 months.

Defining a Successful Transformation

Drawing on our work in understanding customer needs and how to design innovative offerings and meaningful experiences, we have created a three-step process for learning what customers in general or specific sets of customers would consider to be a successful transformation. Armed with this knowledge, a company can design a transformation offering.



Ascertain the jobs to be done. Executives must understand what customers want to achieve—their *jobs to be done*. Those jobs fall into four categories.

Functional jobs represent a goal or a task the customer is trying to accomplish (such as prepare a meal) or a problem the customer needs to resolve (such as relieve joint pain). Some functional jobs center on specific tasks and yield to specific solutions. But others entail individual change: going from sick to healthy, unskilled to skilled, indebted to debt-free, and so on.

Emotional jobs address the feelings (empowerment, being appreciated) that people want to heighten or diminish in any given moment or future circumstance.

Social jobs concern how an individual wants to be perceived (attractive, professional) or relate to others (with encouragement or empathy).

Aspirational jobs sit at the highest level of what motivates people. They involve becoming who an individual wants to be: loved, living life to the fullest, financially secure, successful careerwise, and so on. Aspirational jobs may encompass a lifelong journey; they are often not well understood and, as a result, left unaddressed by companies.

Businesses can use several methods to understand customers' jobs to be done, including interviews, observation, and ethnography. Data alone won't uncover what motivates people, what goals they have, or what problems they want resolved.

Even when customers express their desires only in terms of functional jobs, an adept interviewer will seek to understand the emotional, social, and aspirational jobs lurking beneath the surface. The Toyota Production System's technique of asking "5 whys" is especially useful in uncovering aspirations. When asked why she is getting an MBA, for example, a student may talk of various skills she wants to develop. But when asked about her motivation for developing those skills, she may reply that she wants to find a better job, which, in turn, might be because she wants to feel proud, be perceived as competent, or become a corporate leader.

Define success along the way. Companies must spend time interacting with customers to understand what success looks like at every point along the transformation journey. A company should consider what new understanding, decisions, and tasks are required for an individual to prepare, make progress, and sustain the desired results. Success at



each stage typically involves getting things done in a timely manner without issues and with a positive outcome. To gain insights for a specific journey, it's useful to ask questions about each stage, such as: "What would you like to see happen quickly? What problems or inconsistencies would you like to avoid? What does success look like?" (To learn how to uncover opportunities for innovation across the stages of getting a job done, see "The Customer-Centered Innovation Map," HBR, May 2008.)

For example, patient interviews conducted by one of us (Lance Bettencourt) on behalf of a start-up telemedicine provider revealed that success during the journey from being sick to being well generally meant that patients did not feel rushed during a visit, had a thorough understanding of their diagnosis, got effective recommendations for their personal situation, were clear about what actions they needed to take to get better, and could afford a recommended treatment. Failure to address those interim outcomes often leads to follow-up care that would otherwise have been unnecessary.

This situation is ripe for a transformation offering, especially among older or disadvantaged patients with chronic conditions. Such an offering might include advocates to

help patients get answers to all their questions, an app that guides and motivates patients to fulfill their essential role in recovery, telemedicine for follow-up issues, medical staffers trained to support patients' functional *and* emotional needs, and payments tied to successful treatment outcomes.

Identify the barriers. Once a company knows what success means for a customer, the final step is identifying the barriers that stand in the way and figuring out how to assist in overcoming them. These barriers exist in three primary domains: resources (available offerings, time, budget), customer readiness (skills, motivation, clarity), and context (when and where things are done).

Conversations with customers can help identify the barriers. A dieter may be giving in to late-night temptation; a student may lack study skills; a patient may not have the time, inclination, or resources to stick with the prescribed therapy. Customers can be asked questions such as: In what ways do current offerings fall short? Where do you lack knowledge or motivation? What keeps you from making desired progress? But companies shouldn't stop there. They should also consult their internal experts, who have spent time with customers to understand what hinders



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success, and external specialists, who have studied particular challenges such as diabetics' struggles to keep their disease under control. These sources can also help identify deficiencies in the goods, services, and experiences currently available to customers.

A Case Study: TrueConnect

Let's look at how the financial benefit provider TrueConnect learned to help people with poor credit scores obtain loans that they could afford to repay. When such individuals encounter financial difficulty from unexpected medical bills, an auto accident, or even a broken appliance, often their only recourse is to obtain high-interest loans from payday lenders or vehicle title loan providers that ultimately land them in an even worse situation: They take on debt at a higher interest rate than they can repay, making them more vulnerable to another crisis.

Conversations that TrueConnect's founders had with people with low credit scores generated insights into their jobs to be done, the pain points they experienced, and the barriers they encountered in trying to access funds when facing a financial shortfall. Often their credit history made it impossible for them to obtain loans from traditional financial institutions. And even when those institutions were willing to lend, they rarely provided the funds quickly enough. Would-be borrowers thus fell even further behind in paying their bills or sought funds from predatory lenders. The founders' interviews also revealed that the jobs to be done transcended onetime access to funds; for example, customers also wanted to avoid future financial trouble or to increase their credit score over time.

These insights and other research helped TrueConnect identify characteristics that a responsible alternative to payday loans must have, such as being available without regard to a credit score and being easy to repay in full. The company built a business model that provides a streamlined way for individuals whose household incomes fall in the bottom 30% to apply for and access loans through their



employers. (The loans are provided by Sunrise Banks, a certified B corporation.) Many of its customers, however, are higher-income individuals with poor credit.

Employees fill out an application online and thus never have to face the embarrassment of explaining their circumstances to another person. TrueConnect's system approves loans in less than a second once the enrolled company has verified the applicant's employment via a fully automated process.

But this is not a one-and-done exercise. TrueConnect helps ensure that borrowers stay out of financial trouble by limiting loan amounts to 8% of what an employee earns annually; offering an annual interest rate of 19.99% with no credit check and a rate as low as 3.99% with a credit check; charging no fees; and using automatic payroll deductions to simplify repayment. By comparison, the interest rates on payday loans range from 200% to higher than 600%.



Transformations aren't produced in a factory or placed on a shelf in a store; they are achieved in partnership with the person being transformed.

To help customers along their journey to what the company calls “financial wellness,” TrueConnect partners with coaches across the country to offer free counseling on topics such as creating and sticking to a budget, prioritizing expenditures, reducing debt, and establishing good credit.

Launched in 2013, TrueConnect now helps provide loans through more than 1,200 employers, ranging from large enterprises to small nonprofits. Employees who have used it are satisfied: It has a high average Net Promoter Score (which is calculated by subtracting the percentage of customers who say they are unlikely to recommend your offering to others from the percentage of those who say they are likely to do so) of 76.

Designing the Offering

Once a company has ascertained the jobs to be done, defined success at every stage in the journey, and identified the barriers that must be overcome, it can translate this knowledge into a transformation offering by utilizing some or all of five approaches.

1 **Integrate solutions.** Transformations involve journeys that cut across many offerings, so companies must integrate the goods, services, and experiences required to help customers achieve success. A company needn't provide all of them itself; it can partner with others. The development of an integrated care model for mental health services at Texas Christian University (TCU) illustrates the value of both approaches. (One of us, Lance Bettencourt, is employed at TCU.)

In late 2019 Eric Wood, a psychologist who was then the new director of TCU's Counseling & Mental Health Center, recognized that short-term counseling, consisting of perhaps four to eight sessions over the course of a semester, was all that the university mental-health model was designed to provide. Even that, he told us, was challenging for his small staff of seven full-time therapists (including himself), given the growing needs of TCU's nearly 11,000

students. So Wood decided to create a comprehensive collaborative care model (CCCM), which integrates essential resources from both inside and outside the university; it enabled 48% more students to receive therapy in 2020 than in 2019.

TCU now partners with a local outpatient behavioral-health treatment center that opened offices on the TCU campus. This arrangement ensures that students have easy access to the care they need for significant mental-health issues that may last a year or longer, such as depression, suicidal inclinations, substance abuse, and eating disorders. It permits TCU's staff to focus on providing short-term therapy to students with more-common problems such as coping with anxiety and working through relationship difficulties.

CCCM also integrates other sources of support that exist within the university. A student suffering from a lack of friends, for example, is often better served by the Division of Student Affairs, which can connect the student with appropriate activities and clubs. And TCU now has more than 20 peer support communities focused on grief, substance abuse, anxiety, body image, and more. The early results that Wood shared with us indicate that students in those communities are less likely to need additional counseling.

2 **Engage each customer as an essential partner.** Transformations aren't produced in a factory or placed on a shelf in a store; they are achieved in partnership with the person being transformed. Accordingly, a company must determine what expectations, know-how, and motivation customers need at every stage of their individual journeys. The answers translate into solutions designed to guide the journey, equip customers thoroughly for their role in a transformation, and strengthen their resolve to persist in the face of difficulty. “Guide” is precisely the right word, for in the end, customers must change themselves; the company can only create the optimal conditions.

A company that excels at this is Noom, another enterprise that helps customers lose weight. Started in 2008, Noom originally provided fitness equipment, but it realized that true change required more than useful tools. In 2014 it hired Andreas Michaelides as its chief of psychology to help rethink its offering.



Transformation business models will be much harder to imitate than those that offer only goods, services, or experiences. And they promise to generate a handsome reward.

Michaelides now describes Noom as a behavior-change company. He told us in an interview that lifelong change requires starting with the “why” behind an individual’s weight-loss goals, which may be to set a positive example for one’s children, to have more energy, or to avoid a chronic illness. Articulating the why and repeatedly reminding customers of this bigger reason helps keep them motivated over time and get them back on track after inevitable failures such as binge eating in response to a personal setback.

Noom seeks to empower individuals to lose weight and keep it off by changing both their thought processes and their behaviors in two ways: through daily lessons on topics such as how to think about food and how to form healthy habits and through coaching by people Noom has rigorously trained in various concepts of psychology. Noom’s app and its coaches, most of whom are full-time employees, share content with customers pertinent to each person’s circumstances, struggles, and stage in the journey. Noom’s website features 29 studies published in peer-reviewed scientific journals that have demonstrated the effectiveness of its program. In one study, for example, 78% of users reported weight loss while using the app. In another, 64% of users who completed a 24-week program lost more than 5% of their body weight with an average weight loss of 7.5%.

Over time, as “Noomers” internalize the know-how and build up the resolve needed to achieve and sustain meaningful behavior change, they rely less and less on coaching. Looking to the future, Noom plans to use its approach to treat other conditions, such as sleep deprivation, stress and anxiety, uncontrolled diabetes, and hypertension.

3

Provide customized support. Transformation journeys are individual experiences; success often depends on customized support and guidance according to each

person’s unique situation, preferences, motivation, and skills. Companies rely on various means to provide such assistance at scale. Georgia State University’s success in raising its graduation rates is a case in point.

In 2003 Georgia State had an overall graduation rate of only 32%; the rates for Black and Hispanic students were 29% and 22%, respectively. By taking several actions to get

students the support they needed, the school had by 2011 increased the overall rate to 48%, the rate for Black students to 52%, and the rate for Hispanic students to 48%.

The actions included introducing orientation sessions to provide students with essential information and skills for succeeding in a particular major; fostering “learning communities” by having students who had elected the same major take classes in blocks; having undergraduates who succeeded in lower-level courses one semester become tutors in the same courses in subsequent semesters; and restructuring introductory math courses so that students spend most of their time in a computer lab, where they get individual feedback and learn at a pace that fits their needs.

But by then progress had stalled, and nearly 25% of undergraduates weren’t returning each year. Timothy Renick and Allison Calhoun-Brown—then the university vice president for student success and the associate vice president for student success, respectively—recognized that leveraging the school’s student advisory service was critical to further improving graduation rates. But the service’s dearth of professional advisers—one per 1,200 students—made that impossible without insight into which students would most benefit from support. Enter Navigate, a predictive analytics tool.

The tool analyzes indicators such as GPA, current major, and the number of prior majors declared to predict the likelihood that a student will graduate within six years. Advisers can then reach out to at-risk students to give them the personal support needed to address the barriers to getting a college degree—such as taking courses out of the recommended sequence or changing majors frequently. Also, when the tool identifies students who are on track to graduate but have a modest outstanding balance for tuition and fees, university staffers reach out to them to offer a microgrant (called a Panther Retention Grant) if they agree to meet with a financial counselor to plan how they will finance the rest of their education. These grants average \$900, and more than 86% of recipients go on to graduate.

By redesigning the student journey toward a college degree and leveraging technology, the school had increased its overall graduation rate to 56% by the fall of 2021. Graduation rates among Black, Hispanic, and low-income students over the past four years are at or above that overall rate.

4

Support the full range of jobs to be done. In the nonprofit space, Resolve Solutions Incorporated (RSI) illustrates the importance of supporting all four

categories of jobs to be done. Founded by E. Sean Lanier, a retired U.S. Army major, RSI helps youths, especially those from underrepresented backgrounds, achieve their career aspirations. It is a resource hub for various programs that set them up for success and guide them through the phases of discovering who they want to be, getting into college, staying on track, and progressing in their chosen careers.

RSI specializes in helping kids get into an ROTC program at a high-quality college. Because an ROTC scholarship covers full tuition and fees, this addresses one of the top barriers to pursuing a particular career. The ROTC program and officer service prepare people to become leaders. As Lanier told us, a military career is not the goal; rather, “our game plan is to make sure that [students] graduate from college and have leadership skills. They’ll propel themselves from there.”

RSI works with each student to orchestrate his or her transformation journey. On a *functional* level, for example, it partners with Guaranteed 4.0, a business focused on learning skills to help participants improve their grades. On an *emotional* level, RSI recognizes that lack of confidence is a major barrier to success, especially for the primarily Black and Hispanic students it serves. So while the organization supports and encourages students and connects them to critical resources, it also makes sure they do the work. That might be as simple as reminding them when an application is due (but not doing it for them) or guiding them to groups such as the National Society of Black Engineers. As Lanier explains, “When a kid wakes up in the morning at school, they have to look themselves in the mirror and say, ‘Yep, I did this.’ They have to own it. If they own it, they’re going to be much more successful at it.”

On a *social* level, RSI understands that success depends on kids’ having several adults in their lives to support them. So it ensures that each student works with at least one mentor, often in his or her chosen career field. The mentors, who come from RSI’s vast network of volunteers, regularly meet with their mentees for years to guide, encourage, and occasionally prod them. On an *aspirational* level, they help the students create a plan, make good choices, access the right resources, and stay focused so that they can achieve their career ambitions.

At the Virginia Military Institute, for example, the success rate of RSI youths who get an ROTC scholarship and then go on to graduate from college and become commissioned officers is 81%—well above the national average



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STRATEGY

of 52%. And RSI’s success rate of 70% at Historically Black Colleges and Universities is more than double the success rate at those institutions overall.

5

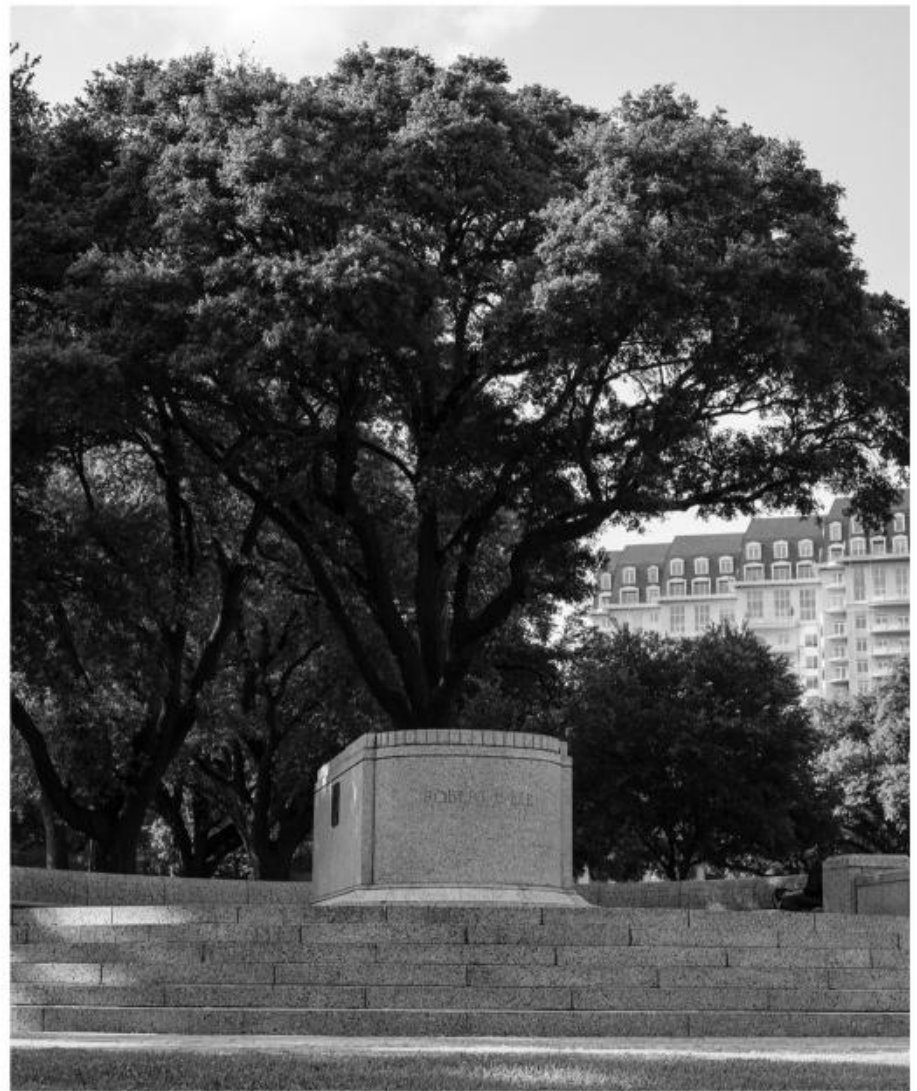
Charge for outcomes. A true transformation business goes beyond charging for the physical things (goods), company activities (services), and memorable events (experiences) on which it builds its offerings. It aligns its fees with what customers value: transformational outcomes.

One example is recent changes in state governments’ policy of paying for social outcomes. Massachusetts, for example, authorized its social service agencies in 2012 to enter into “pay for success” contracts. One agency stopped paying for the time employees spent in an English fluency class and instead started paying them when they had secured steady employment because of their demonstrated fluency. Another example is in U.S. health care. Fueled largely by pressure from payers, the movement to tie reimbursement to outcomes and patient satisfaction has been gaining steam in the past decade. Affected players include hospitals, clinicians, device makers, and drug companies.

COMPETING ON TRANSFORMATIONS makes a company responsible for working with customers to define the transformation each one seeks, identify the barriers to success, and orchestrate all the goods, services, and experiences needed to support them during their journeys. Such business models will be much harder to imitate than those that offer only goods, services, or experiences. And they promise to generate handsome rewards—not only profits but also the knowledge that the company has truly made a profound difference in its customers’ lives.  **HBR Reprint R2201D**



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CORPORATE
SOCIAL
RESPONSIBILITY

How Companies Can Address Their Historical Transgressions

Lessons from
the slave trade and
the Holocaust



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ABOUT THE ART

Matthew Shain's project "Post-Monuments" contemplates the legacy and removal of Confederate monuments across the United States in the hope that the resulting vacancies will provide space for contemplation of our historical narrative.

In 2002 the executives of CSX, a freight railway company whose origins lay in the early 1800s, received unexpected news: The company was being sued in a federal district court in New York as part of a class action lawsuit filed on behalf of all living descendants of enslaved people in the United States.

The lawsuit, which also included FleetBoston Financial (now part of Bank of America) and Aetna, sought unspecified damages, compensation for unpaid forced labor, and a portion of the profits resulting from that labor. The plaintiffs cited CSX's use of enslaved people to construct its railways, FleetBoston's connection to an earlier bank founded by a man who owned ships that transported enslaved people, and an Aetna predecessor's practice of "[insuring] slave owners against the loss of their human chattel."

The accusations were all accurate, and they raised an important legal and moral question: Should a long-established company be required to atone for the atrocities of a bygone era? John W. Snow, then the chairman and CEO of CSX (who later served as secretary of the treasury under George W. Bush), thought not. The company issued a statement arguing that although slavery was tragic, the case was "wholly without merit." A spokesperson, Kathleen A. Burns, chastised the plaintiffs for trying to hold today's employees and shareholders accountable for ills more than a century old. The court dismissed the case without addressing the merits of the claim, arguing that the plaintiffs could not prove their direct personal connection to those affected.

Legally, the judge's decision was unsurprising. U.S. courts tend to rule against plaintiffs seeking reparations from corporations for historical crimes, and the International Criminal Court does not try cases involving corporations. But the legal and reputational risks to companies from their long-past activities are growing, as large portions of society push for what they see as an overdue reckoning. Schools are being renamed, mascots are being discarded,

IDEA IN BRIEF

THE ROOTS

The history of some long-lived companies includes participation in atrocities such as slavery, the Holocaust, and the displacement of indigenous peoples.

THE REACTION

Present-day executives often try to avoid accountability for what they claim is distant history. But large portions of society are pushing for what they see as an overdue reckoning for past wrongs.

THE SOLUTION

Corporations must first accept that responding to historical crimes is their fiduciary and moral duty. They should be totally transparent, apologize, and take cues from the field of transitional justice by working with victim communities and their descendants to make amends.





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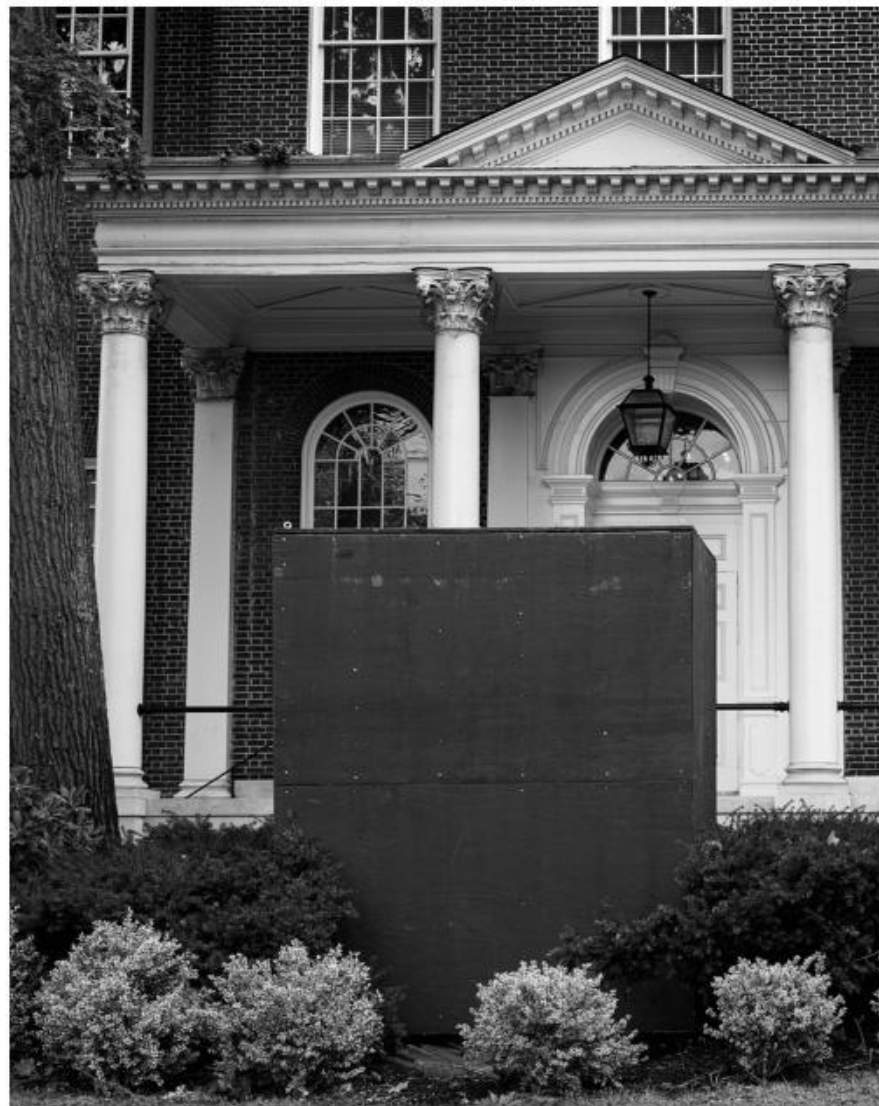
and statues of historical figures that only a few years ago barely drew a glance are being toppled. Businesses face scrutiny over the origins of wealth and how they may have exploited people to enable their current profitability. Social media makes it easy for activists to publicize criticism, organize boycotts, and take other actions.

Ultimately, law follows public opinion, and legislatures are unlikely to keep laws on the books that ignore this moral turn. In a comprehensive study of corporate accountability claims for mass atrocities around the world, Oxford University's Leigh Payne and colleagues found that although legal impunity prevails, calls for atonement from growing portions of civil society are likely to change the landscape in the coming years.

As an assistant professor of negotiation and conflict management at the University of Baltimore, I study the role of businesses in mass atrocities and their attempts at making amends. I've seen firsthand how executives can be blindsided by revelations of their distant predecessors' transgressions and how their most common reaction—defensiveness—almost always backfires. I recently published *Last Train to Auschwitz: The French National Railways and the Journey to Accountability*, about one of the most high-profile legal and public relations disputes in French history: the effort by survivors of the Holocaust to force the French National Railways (SNCF) to atone for its role in transporting tens of thousands of Jews and other minorities under horrific conditions toward death camps in Poland. Drawing on this and other cases, I've collected best practices for multigenerational companies taking a proactive approach to addressing the dark chapters of their history.

French Railways' Checkered Past

In the late 1980s the SNCF was a darling of French industry. France's first high-speed rail line had opened in 1981 and, along with the Japanese rail system after which it was modeled, was the envy of the world. Among the French public, the SNCF had long enjoyed its role as a bright spot in the country's mid-20th-century history. During World War II a small number of brave railway workers had sabotaged the country's trains on D-Day as part of the Resistance, earning the SNCF France's highest medal of honor in 1951. But many





When confronted with what seem like antiquated claims, many executives become defensive: After all, they had no personal involvement in the crimes committed.

people in France and elsewhere knew another part of the SNCF story: During the war, French drivers and railway operators had transported Jews in packed cattle cars with barely any light, food, or water to the German border, where they were transferred onward, often to Auschwitz.

In the early 1990s the French Holocaust survivor Kurt Schaechter secretly photocopied thousands of documents from SNCF archives proving that the train company had played a material role in the deportation of 76,000 Jews from France to death camps. Though evidence of the SNCF's participation in this crime against humanity was irrefutable, its executives spent years defending the company. Soon after he was appointed its chairman, in 2008, Guillaume Pepy echoed many of his predecessors when he told a radio interviewer that the SNCF's job during the war was "simply to make the trains run"—the implication being that the company shouldn't be held accountable for what they carried. Executives also highlighted material losses during the German occupation—painting the company as a victim.

Holocaust survivors turned to the courts and the media. Schaechter had filed the first lawsuit in 2003, asking a symbolic one euro in damages. But others followed with claims for larger amounts. The legal battle eventually spilled over to the United States, where survivor groups filed reparations lawsuits and lobbied for laws that would create barriers to the SNCF's operations there.

For the railways, resisting accountability proved almost as expensive as accepting it. A multinational legal battle lasted almost two decades, running up enormous fees. From 2012 to 2014, at the height of the conflict, the SNCF spent roughly \$1 million a year on lobbying in the United States. That dropped to \$90,000 in 2018, after the conflict subsided. Throughout, executives faced bruising encounters with the press, angry plaintiffs, and their supporters. At one point they felt that the reputational damage in the United States was so bad that the SNCF should pull its business from that country entirely. Eventually the company took a number of steps to atone for wartime crimes and mend relations with much of the French Jewish community and some of its diaspora. But in 2015 an exhausted Alain Leray, who served as CEO of SNCF America during part of the conflict, told me that in retrospect, it probably would have been easier to settle and pay the victims when the lawsuits began.

I have often asked myself what can be done to break the cycle of pain that accompanies such ordeals. It is a double tragedy when accusers and accused cause one another further damage following a historical atrocity. The answer begins with companies accepting responsibility and proactively trying to make amends. Through my work I have discovered several ways that executives can offer a less-damaging and more restorative experience for everyone involved—the survivors and their descendants and the executives, employees, customers, and shareholders of today.

Accept Responsibility

To appropriately respond to historical crimes, corporate leaders must accept that doing so is their fiduciary and moral duty. When confronted with what seem like antiquated claims, many become defensive: After all, they had no personal involvement in the crimes committed, and many companies profited from slavery, colonialism, and genocide. Why should only the few that remain from that bygone era carry the burden of atoning for those sins?

Courts have been sympathetic to that view. But lawsuits can be damaging even if the judge's ruling is favorable. When she filed a class action lawsuit against the SNCF on behalf of 600 litigants in 2006, the New York lawyer Harriet Tamen knew that the company was protected by the Foreign Sovereign Immunities Act. But she used the doomed lawsuit to attract media attention. It worked: The scrutiny helped activists persuade U.S. legislators to draft bills creating barriers to the SNCF's bids for rail projects.

Evasion almost always backfires for corporations. Refusing to address unatoned-for crimes looks like complicity. Denial of responsibility in the face of legitimate accusations may give executives the appearance of supporting the actions of their predecessors. Evasion also delegitimizes the emotional wounds of victims' descendants, who in response often mobilize and rally public support against both the original crime and the contemporary dismissal. Finally, it can take a toll on employees, who are increasingly demanding that their employers live up to pledges of diversity and inclusion by acknowledging their role in historical oppression. In 2020, for instance, Lloyd's of London, the 335-year-old insurance company, responded to long-standing



Apologies land best with affected communities when they are issued without prompting. Corporate sincerity will always be questioned, but proactive statements fare better.

pressure from Black employees to better understand and make amends for the company's sale of insurance policies on enslaved people and the ships that transported them.

So how can executives calm rather than inflame tensions? They can take their cues from the field of transitional justice, which develops interventions following mass atrocities. After World War II, practices emerged from that field to support nations transitioning from tyrannical regimes to democratic ones. Those practices include efforts at transparency (through the proactive investigation of one's past), compensation, apology, commemoration, dialogue, institutional reform, and victim services. They have already been employed across the world, from Rwanda, Argentina, and Sierra Leone to the United States, where transitional justice commissions have addressed abuses such as Japanese internment during World War II, the mistreatment of indigenous peoples, and the use of torture in the war on terror. Increasingly these commissions include corporate actors: Since the 1980s more than 20 truth commissions in 20 countries have involved companies' representatives.

Investigate Your Past

Ideally, long-standing companies will engage in internal research to identify shameful historical episodes themselves—before survivors or descendants call for justice and set senior leaders on the defensive. SNCF executives undertook no such research and thus were unprepared when Schaechter's documents became public. Once it was clear that the scandal wasn't going away, the executives did what they should have done before Schaechter's revelations: They hired a historian to sort through the company's wartime archives and make the findings public. They also opened the archives to anyone interested in conducting research. They formed a commission for historians, archivists, company representatives, and some survivors to discuss a more accurate account of the SNCF's past. The pivot to this understanding of its wartime history was at times poorly handled. For instance, the company invited only five survivors to the 50-person launch of the report. But it was a start.

Historical transparency should extend even to materials traditionally used for marketing and promotion, such as About Us pages on company websites. Consider the differing

approaches to slavery-related transgressions taken by two Alexander Brown & Sons legacy companies. Alexander Brown, a linen auctioneer from Ireland, emigrated to the United States in 1800 and soon transitioned to cotton. He and his sons expanded the company into banking. Alex. Brown spun out of Alexander Brown & Sons, merged with Bankers Trust in 1997, and was acquired by Deutsche Bank in 1999 and then Raymond James in 2016. Today its home page displays a timeline beginning in 1800, when the company became the world's first investment bank. The timeline glosses over the fact that this form of banking was created to provide funds supporting the cotton industry and its enslaved labor. The banking firm Brown Brothers Harriman (BBH), another legacy company, offers a more robust account. Its timeline begins by acknowledging that "there are also aspects of our history that we are not proud of and reflect on with deep regret, among them Brown Brothers & Co.'s active participation in the global cotton trade of the early 19th century that relied on the abhorrent practice of slavery."

Apologize and Make Public Statements

Apologies land best with affected communities when they are issued without prompting. Corporate sincerity will always be questioned, but proactive statements fare better. Consider JAB Holding, which has controlling stakes in household names such as Krispy Kreme and Calvin Klein. The company is owned by the Reimanns, Germany's second-richest family. In 2016 the economic historian Paul Erker started work to help the Reimanns better understand the family's activities during the Nazi years. His discoveries were horrendous. The founders of JAB Holding had enthusiastically supported Hitler, and their company used forced labor during the war.

Shortly after learning of the findings, in 2019, Peter Harf, a managing partner of JAB Holding, told a German magazine, "We were speechless. We were ashamed....These crimes are disgusting." Harf then promised, "As soon as [the historian's] book is finished, we will publish it. Unadorned. The whole truth has to be on the table." Without being prompted by lawsuits or pressured by advocacy groups, the family pledged 5 million euros in support of Holocaust survivors and 5 million euros to former forced laborers.



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In 2020 the British pub chain and brewer Greene King emerged as another model for proactively acknowledging historical wrongs when it addressed the company founder Benjamin Greene’s enthusiastic support for the practice of slavery and his ownership of 231 human beings during the 1820s and 1830s. Greene King’s CEO, Nick Mackenzie, called this behavior “inexcusable” and told media outlets, “We don’t have all the answers, so that is why we are taking time to listen and learn from all the voices, including our team members and charity partners as we strengthen our diversity and inclusion work.”

What should an apology consist of? Martha Minow, a former dean of Harvard Law School, argues that good apologies “acknowledge the fact of harms, accept some degree of responsibility, avow sincere regret, and promise not to repeat the offense.” Ernesto Verdeja, an expert on apologies for mass crime, reminds those crafting responses to avoid making excuses for past actions.

The communications professor Claudia Janssen issues some additional advice based on her analysis of Aetna’s response to the slavery-related lawsuits: Companies should avoid using apologies to disassociate themselves from the prior regime or to bring closure. In 2002 an Aetna spokesperson said, “These issues in no way reflect Aetna today” and then went on to talk about the company’s current commitment to diversity and equity. The issue, however, is the past. What’s more, the company made several defensive statements along with the apology: It said it had “no way of knowing if the company profited” from the few recorded policies issued on enslaved people, and Aetna’s leaders refused to open its archives to independent historians to find out. The company’s stance did not build trust.

Finally, when responding to accusations, do not bring up acts of heroism or claims of victimization, as executives of the SNCF did repeatedly. When asked about the role their company played in the Holocaust, they often reminded their questioners of the heroism of SNCF railway workers on D-Day and the company’s material losses during the German occupation. Those statements, perhaps issued with the intention of both honoring heroes and satisfying the train union, were poorly received. Bringing up good deeds in the face of legitimate claims is a defensive move rather than a receptive one.

Respond Meaningfully

In 2011, nearly two decades after the first Holocaust-related lawsuit against the SNCF, Guillaume Pepy delivered yet another apology on its behalf to an audience of Holocaust survivors: “I want to express the SNCF’s deep sorrow and regret....In its name, I am humbled before the victims, the survivors, and the children of the deportees, and before the suffering, which lives on.” It was a moving statement, but not everyone was impressed. The plaintiffs’ attorney Harriet Tamen said, “Don’t bow down, write a check.” Lou Helwaser, whose mother had been deported, told me, “It sounded more like making excuses than taking real responsibility.”

Words without action are meaningless. Most executives are familiar with this basic tenet of service recovery, and it holds even for a major corporate atonement. Many are unsure how to respond to historical harm; they know it can’t be handled using the playbook of a routine service failure. So then how? The scale of damage caused by historical crimes can seem overwhelming. Research has shown that the legacies of the Holocaust, slavery, genocide, and colonialism affect the descendants in myriad ways through trans-generational trauma. Some estimates for appropriate slavery reparations in the United States total about \$14 trillion. Should companies pay some reparations? If so, how much?

The answer is that at some point corporations facing up to historical crimes will need to write a check. How much and whom to pay should be decided not by the company alone, behind closed doors, but with the input of affected communities—ideally before litigation. The SNCF waited too long, but it was still able to turn opponents into allies through ongoing engagement. Serge Klarsfeld, a leading French activist, chastised the SNCF early on for its participation in the Holocaust, but eventually he guided many of its atonement-related activities. He urged the company’s leadership to install plaques at important sites and encouraged the SNCF to contribute to other Holocaust-related programs. Today it cosponsors many commemoration activities in France, including the annual Reading of the Names. Klarsfeld also directed the company to contribute to his orphans fund, which provided material support and recognition to some survivors. The French Jewish leadership largely accepted the SNCF’s acts of contrition.





Historical atrocities can never be fully repaired—and the past has a habit of catching up with anyone who ignores or tries to outpace it.



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Klarsfeld even began serving as a lawyer for the company when it faced lawsuits in the United States.

For crimes without living survivors, companies can locate and support descendant communities. Georgetown University modeled one way to do that. Facing insolvency in 1838, Georgetown had sold 272 enslaved people to pay off its debts. In 2016 the university considered what support it could offer their descendants, the majority of whom were found to be living in a single town in Louisiana. It funded research to locate them and then offered them preferential admission and scholarships to study at the university. It also launched the Georgetown Slavery Archive, which provides a wealth of material on the institution's slavery-related activities and information about those who were enslaved.

Georgetown students, through sit-ins and other forms of mobilization, advocated for even more action. In 2019 they voted to add \$27 each to their student fees to support the Louisiana community. The institution now works with the community to identify useful investments. The students' active participation demonstrates to companies that involving employees and shareholders builds internal support for contributions as it helps shape an organization's ethos. Of course, not everyone will support engagement. More than a few vocal French Railways union members vehemently opposed any statement or activity that tarnished the SNCF's image as a wartime hero. Executives must, as always, accept that their decisions will not please everyone.

Companies can also band together to coordinate their responses when evidence is found of industrywide participation in historical crimes. We saw the beginnings of such cooperation in 2000, when 6,500 Nazi-complicit German companies contributed to a foundation for survivors called Remembrance, Responsibility and Future. Unfortunately, rather than reflecting a true commitment to reparations, the foundation sought to put an end to what then German Chancellor Gerhard Schröder called a "campaign" against his country and German industry by the United States and Western Europe. Few of the companies that contributed to the foundation did more than contribute monetarily to the fund. Only a handful engaged in historical research; fewer still made public statements. That turned past participation in genocide and torture into just another cost of doing business. Still, the idea of joining forces has merit—especially

if scale allows for more-meaningful contributions and responses to victim groups.

Finally, companies should avoid giving the impression that their contributions are a vanity project. While it's fine for them to come up with their own ideas for commemoration, supporting existing projects and low-profile attendance at commemorative events demonstrates respect for what victims and their descendants suffered and also acknowledges that they best understand what they need to recover. The key for executives is to participate in a broader conversation without trying to control the narrative or put the issue to bed.

SHAKESPEARE WROTE, "The evil that men do lives after them." I see this clearly when talking with those who survived such atrocities. Take Daniel, who was deported on the last train from Paris to Auschwitz. He hangs his only picture of his murdered parents at the foot of his bed. He and his brother both survived the camp, but the experience was so horrifying that he recently said to me, "I still wonder if it would have been better to die at Auschwitz."

Historical atrocities like slavery and the Holocaust can never be fully repaired. But companies complicit in such events should not avoid their own reckoning. By their nature, executives feel most comfortable when focusing on the future. But the past has a habit of catching up with anyone who ignores or tries to outpace it. Corporate leaders may feel it's not fair that they should have to devote their attention to making amends for their predecessors' sins. But particularly in an era when society is scrutinizing and reassessing the history of both individuals and organizations, leaders must be ready to engage with—and atone for—their company's past actions.

Corporations must first accept that it is their duty to respond to historical crimes. They should be totally transparent, apologize, and take cues from the field of transitional justice by working with victim communities and their descendants to make amends.  **HBR Reprint R2201E**



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CAREER
COACHING



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Family Ghosts *in the* Executive Suite

The roles you played growing up
can help and hinder you at work.
Here's how to maximize the positive.



ARTIST JULIE COCKBURN







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IDEA IN BRIEF

THE CONCEPT

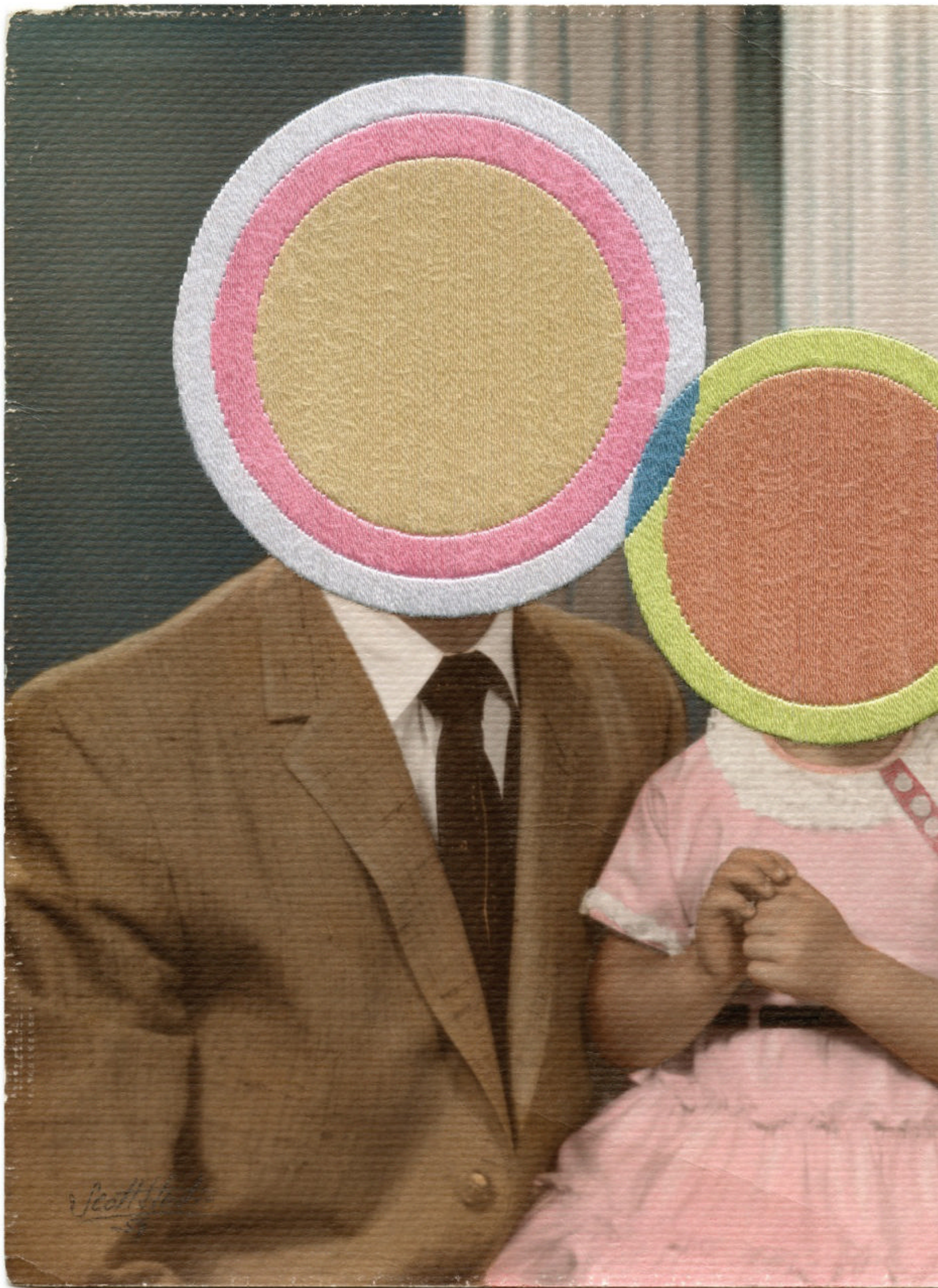
Early in life, family dynamics give rise to many fundamental behaviors and attitudes toward authority, mastery, and identity. When similar dynamics emerge at work, people often revert to childhood patterns.

THE INSIGHT

To enable change, psychologists often encourage clients to consider the nature of their original family system. This approach has been widely applied to behaviors in the personal realm but can—and should—be applied at work too.

THE WAY FORWARD

Six factors influence how family dynamics play out in the workplace. To achieve your greatest potential, you need to understand how those factors have helped make you who you are.





ABOUT THE ART

Julie Cockburn alters and embroiders found vintage photographs, reimagining and layering their forgotten histories.



THEORY GOES LIKE THIS: If you want to become a better leader, you have to seek out feedback and engage in self-reflection. Do that, and you'll come to understand your strengths and weaknesses, which in turn will allow you to embark on a program of self-improvement.

In practice, it's not that simple. Even if you know exactly how you want to change at work, you often find you can't. And it's not clear why.

Professional growth can get stymied for all sorts of reasons. But one of the most important is rarely discussed: You're contending with ghosts from your past. Fundamental attitudes and behaviors that evolved from the family dynamics of your childhood have traveled with you into the present—and into the office. Those dynamics taught you a lot about authority, mastery, and identity. So when similar ones assert themselves in the office, it's easy to revert to childhood patterns. There you are, negotiating with your boss, when suddenly your five-year-old self shoves the adult you aside and reacts. Or, when meeting with your peers, you find yourself behaving as you so often did in sibling free-for-alls.

These ghosts don't just lurk at the bottom of a sea of memories. They create hungers that you have to feed, and they actively steer you through the world. You bring them to life every day through what psychologists call "transference," a process during which thoughts, feelings, and responses that have been learned in one setting become activated in another.



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THE FAMILY SYSTEM

A system is a set of dynamically connected elements. If you do something to any one of those elements, the others are also affected. Families are systems, and their members are dynamically connected too: What any one person in the family does affects everybody else.

In clinical psychology, practitioners of family-systems theory (among them Murray Bowen, David M. Kaplan, Salvador Minuchin, and Virginia Satir) encourage clients to examine patterns that date back to childhood to enable change in themselves. This approach is well established when it comes to personal behaviors and relationships, but until recently it hasn't been used widely in the business realm, where companies often expect employees to maintain strict boundaries between their professional and private selves and to be rational rather than emotional. Some executive coaches prefer that they and their clients focus on the present and leave an analysis of the past to therapists.

Things are changing, however. A growing number of scholars and coaches, including us, have started to apply family-systems theory in the organizational setting. What we're suggesting is not therapy but a mode of self-analysis and reflection that can help you develop as a leader. Many of the executives we've worked with have found this approach to be extremely helpful, but we urge caution: Any deep exploration of the past can expose sensitive and difficult issues.

Guided by the tenets of family-systems theory and by our own work, we've identified six elements of family dynamics that commonly play out in the workplace. To understand yourself better in the office, you need to understand what they are, what role each one played in your upbringing, and how they have helped make you who you are.

Consider the case of one of our students, whom we'll call Sarah. When we first met her, Sarah had been in the HR department of a large company for 17 years but had plans to strike out on her own. Creative and tech savvy, she had been working for two years with classmates from an executive MBA program on a start-up—a company that, using an algorithm she helped design, would match employers with prospective employees. The algorithm was tested and ready, and the next step was for the team to line up venture capital and clients.





Not surprisingly, the role you play in your family tends to be one that you fall into easily at work. Common roles include the jester, the troublemaker, and the brain.

Sarah was a natural for those tasks. She was a confident manager, believed passionately in the new company, and had terrific connections in the VC and HR worlds. She enthusiastically prepared PowerPoint presentations and a contacts list, but when it came time to actually schedule meetings, she found herself stuck. She began each day intending to get going but was constantly diverted. Soon her inability to act was causing her such stress that she worried about her health.

Sarah was confounded by her own behavior. Admittedly, this was a new role, one in which she was often the only woman in all-male settings, and a lot was riding on her work—but she'd dealt with those things before. So what was going on? As Sarah reflected, she began to recognize deep connections to the dynamics of her childhood. She came from a family in which education and success were very important. Wanting to please her parents, she had excelled at school, and her parents had been thrilled. They had been less pleased with her older brother, who, try as he might, was never able to excel in the way that Sarah did. They pushed him hard until he rebelled and eventually became estranged from the family. Sarah was devastated. She felt proud of her accomplishments and craved her parents' praise but worried that her success had pushed her brother away. As she considered her role in his estrangement, guilt replaced pride.

Those dynamics, Sarah realized, were at play in the paralysis she was feeling. She was poised to succeed, but unconsciously she feared that in moving into the limelight she would undercut her peers and make them angry. She worried, too, that in making her board happy she might alienate her team. The ghosts of her parents, her brother, and her younger self were right there with her in the executive suite.

With Sarah's story in mind, let's explore the factors that affect behavior in the workplace.

1 Values and beliefs. Each family has a unique character that's transmitted to children through a shared framework of values and beliefs. This framework, which determines the shoulds in a family, guides individual behavior and defines the core identity of the family as a whole.

Executives we've worked with find it relatively easy to identify core values and beliefs. Among those we've heard are these: Education is the most important thing. (Assumption: It's what gets you ahead in life.) Be caring and considerate of

others. (Assumption: Relationships are more important than other things.) Never let them see you sweat. (Assumption: Being successful means having a stiff upper lip.) Father has all the answers, and you must follow his lead. (Assumption: Your own thinking and reasoning is inferior to his.) You must be a doctor, lawyer, or engineer, or you will embarrass the family. (Assumption: Your responsibility is to maintain the family's standing in the community.)

Take a moment to identify your family's core values and beliefs. What shoulds went along with being a child in your family? Which ones have stayed with you? When have they served you well? When have they gotten in your way? When might the underlying assumptions be wrong?

It wasn't hard for Sarah to identify her family's values and beliefs. Most important were working hard, doing well in school, making the family proud, and succeeding as a professional. Sarah did all these things. But her success was at odds with another core family belief: that the son in the family should be the star. A daughter could—and should—be a top performer, but her success would always be secondary.

Given this set of values and beliefs, it's no wonder that Sarah was paralyzed by the idea that in promoting the company she would also be promoting herself above her colleagues.

2 Roles. All members in a family tend to play a role determined in part by their individual personality and in part by their family system's need for dynamic equilibrium. Parents might decide that a child is the reincarnation of, say, Uncle Martin or Aunt Nina, and as a result will reinforce certain Martin-like or Nina-like traits in that child until they stick. A family might label one child a success but another a disappointment or a rebel or a dud. Twins might divide up the world in order to create separate identities: one the introverted artist, the other the extroverted athlete. Or they might become two peas in a pod that others can't tell apart. A child might take on the role of decision-maker or breadwinner if adults have abdicated responsibility. The possibilities abound. Common roles include the jester, the troublemaker, and the brain.

Not surprisingly, the role you play in your family tends to be one that you fall into easily at work. Think about how this applies to you. What roles did you play in your family



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when you were young? What were the roles of others in your family, and how did yours relate to theirs? How does that dynamic relate to the roles you now assume as an adult and a leader? When have your family roles been useful at work, and when have they held you back?

Sarah could easily identify the roles she played as a child. She was the creative doer—the successful child—while her brother was the troublemaker and rebel. As fighting between her brother and her parents escalated, Sarah also took on the role of the peacemaker and supporter, always trying to soothe feelings and calm the storm.

Some of her ghosts were a positive force. As a creative doer, Sarah knew how to identify and meet the expectations of those around her. As a peacemaker and supporter, she excelled at bringing opposing parties together and encouraging her team. But those roles also roused her negative ghosts. When her colleagues failed, she felt guilty, even though it wasn't her fault. She wasted a lot of time trying to manage others' conflicts, sometimes becoming exhausted and overwhelmed as she tried to meet high expectations in her own work while also attending to others' concerns.

3 **Secrets.** Most families have secrets. Sometimes, everyone in the family knows them, but they aren't shared with outsiders. Other times, only certain people know them, and they hide them from the others in the family. Secrets affect how family members communicate and act. They often involve substance abuse, sexual abuse, mental illness, sexual orientation, divorce, money, and other issues difficult to acknowledge and discuss.

Consider your family's secrets growing up. What subjects or people were taboo? Who in your family was privy to the secrets? Which subjects continue to feel off-limits to you today? How do they affect your ability to lead?

The big, unacknowledged secret in Sarah's family was that her brother was not doing well. In the narrative her family presented to the world—and to itself—every member was accomplished and successful. When Sarah's brother acted out or lost friends, the family treated it as a one-time aberration—so consistently, in fact, that for years Sarah didn't recognize the abiding nature of her brother's problems.

At work, Sarah often found herself keeping secrets. When she dealt with problematic colleagues, she reverted to the

behaviors she had developed in dealing with her brother: When somebody on her team failed or was performing poorly, she treated it as an aberration not to be talked about. In doing so, she often lost the opportunity to give realistic feedback—and to create a record that she could refer to if poor performance ultimately warranted dismissal.

4 **Boundaries.** Families differ significantly in the way in which they think about structure and boundaries. In some families, anything goes; showing up at dinner a half hour late with three friends in tow is just fine. In other families, rules are rigid and boundaries are never crossed; such families might not allow playdates after school and might deny food to any child who arrives five minutes late for a meal. Most families occupy a place somewhere in between.

Needless to say, people often find that they're more comfortable in organizations that have boundaries like those of their families. Consider your own situation. How would you characterize your family? Was it highly structured, with clear rules, roles, and decision-making authority? Or were things looser and more flexible, even chaotic? Were rules made and enforced only within the family, or did outside influences and ideas play a role? How did it feel to live in such a system, and in what ways might it have affected your leadership style and job choices today?

Sarah's family had well-defined boundaries, so it's no surprise that she ended up working for so many years in a large bureaucracy, where the rules, expectations, and reporting structure were clear. She was comfortable in that setting. She always knew where she stood and how to navigate the system.

But Sarah was itching for a change. For too long, she'd existed comfortably within the boundaries defined for her by her bosses and her organization. She wanted to try working in a new setting without the kind of strict hierarchy that had characterized her family. The prospect scared her, but nonetheless she was eager to break out of the prison of expectations. This is common: As the psychologist Robert Kegan has written, in adult development it's normal to move from a "socialized self" (meeting others' expectations) into a state of "self-authoring" (defining independent values, ideas, and modes of operating). The trouble is that your ghosts can slow down this transition.



As you identify your ghosts, take note of why it might be difficult or scary to leave behind a cherished role or identity, even when you aspire to be different.

5

Triangles. It's easy to think of family dynamics as a set of one-to-one relationships: a son fears his father; a sister overshadows her brother. But relationship triangles are very important in determining the dynamics of any family system. Parents might never scold or discipline a child when a grandparent is present. Or they might avoid their own conflicts by each complaining about the other to a child. Children are masters at the triangle game, often playing one parent expertly off the other to get what they want.

Think about the triangle patterns that characterized your family. Who formed the three sides? What patterns of behavior dominated? Can you see any patterns repeating themselves in your office and leadership behavior? Do they help or hinder you in your work?

The main triangle in Sarah's family was made up of Sarah, her parents, and her brother. From her parents' perspective in the triangle, Sarah was the "good" child, and her brother was a "problem." When her parents paid attention to her, it affected her brother, who felt she was stealing his thunder; when they paid attention to him, she felt invisible and ignored. Another triangle in the family unit consisted of Sarah's mother, father, and brother: When her brother got poor grades at school, he went to his mother for support, which angered his father, who favored punishment. In both triangles, family members were struggling to deal with a boy who failed to meet family and societal expectations.

At work, Sarah often found herself in a triangle like the first one mentioned above, in which the three sides were formed by her bosses, her colleagues, and herself. From the perspective of her bosses, she was the "good" employee who dutifully met expectations and rose up the ladder, while some of her colleagues, who were less successful, became the "problems"—and they resented her as a result. After Sarah recognized this, she resolved that in her new company she would strive for cooperation, not competition, among her peers.

6

Expectations and mastery. All parents have expectations of their children. Some children, like Sarah, are loyal lieutenants who work hard to live up to them, and in so doing develop a sense of mastery that helps to define them as adults. Others try but fail to

meet family expectations and seek out mastery in other areas. And still others, like Sarah's brother, buckle under the weight of expectations and simply rebel. In our research and consulting work, we sometimes find seasoned executives still trying to meet family expectations. One CEO kept collecting honors to please his parents even though they had been dead for years!

What were the expectations of your family? Did you meet them? Are you still trying to? If you developed a sense of mastery in response to those expectations, within or outside your family, how did that make you feel? And how does it affect the way you now respond to expectations at work?

THE PATH TO CHANGE

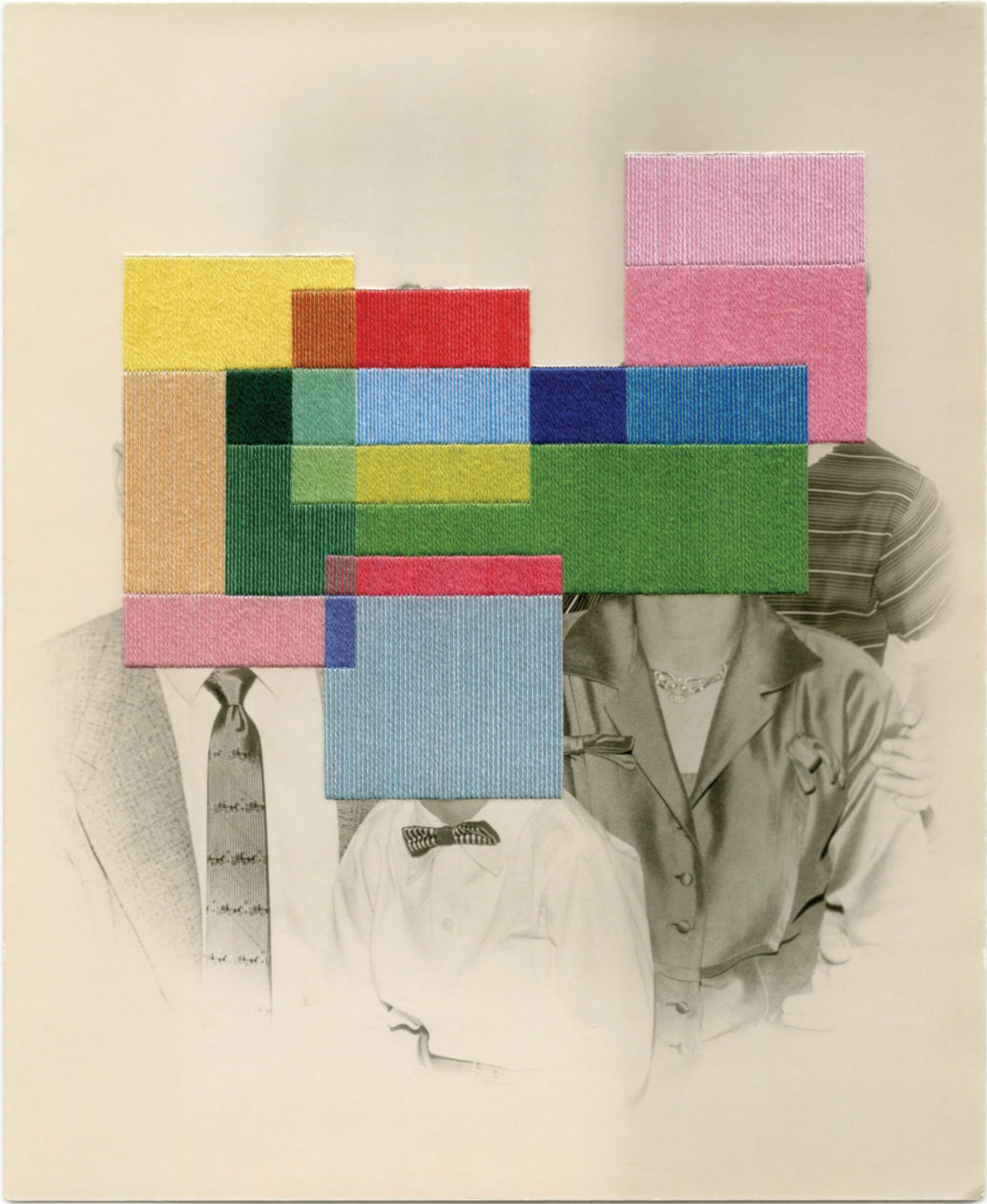
Your family ghosts are a part of you. But the good news is that they don't have to define you. If you can recognize the dynamics that shaped your early life, you can create a new developmental path for yourself.

Here are some helpful steps for doing that:

Identify your ghosts. Review the questions we've posed, and jot down a summary of your family dynamics. What surprises you? What confounds you? Some people like to compare notes with family members; others discuss their conclusions with friends or spouses.

When we ask executives to do this exercise, many of them experience an aha moment: They finally understand how important pieces of their complex personality puzzle fit together. Some feel relieved in this moment, and others feel ashamed, but in having the epiphany, they open themselves up to the possibility of change. Seeing the full pattern may take some time, so be patient and try not to judge yourself. One executive found that the reason he wasn't able to be a more empowering leader at work was because in his family he had always been the one everybody looked to for the answers to problems, and he feared that in delegating, he would lose his identity. Such connections often seem obvious in retrospect, but in the flow of life and work we often simply don't make them. As you identify your ghosts, take note of why it might be difficult or scary to leave behind a cherished role or identity, even when you aspire to be different.

Set a goal for change. When you look at your summary, consider how your family ghosts affect you at work. First,





Some ghosts make you resilient and are the pillars of your success. Celebrate and build on them.



CAREER
COACHING

focus on the ways they help you. Some ghosts make you resilient and are the pillars of your success. Celebrate and build on them. After that, think about the ghosts that hinder you. If you could exorcise one of them, which would it be? What change would best help you become a more productive leader? Neuroscience has taught us that the most effective way to change behavior is by creating new neural pathways rather than trying to get rid of old ones, so be sure to phrase your goal as an aspiration. It's better to tell yourself, "Listen and encourage others to participate" rather than "Don't hog all the attention," because the first statement focuses on instilling a new behavior.

Frame the goal properly. Once you've identified your goal, make sure that it is framed in a way that will steer you away from your old triggers.

Here's how Michael, one executive we worked with, managed this task. He wanted to become more visionary and strategic. But he came from a family in which he had always been expected to put his plans on hold and help a disadvantaged sister. Invariably, at times he didn't, and in those moments their mother came down hard on him, telling him how selfish he was. Michael internalized that criticism. Consequently, at work he had trouble with any goal that triggered this feeling of selfishness. "Spreading my ideas throughout the organization" was one such goal that he struggled with. His family ghosts wanted him to shut that ambition down. But Michael realized that he could reimagine the goal as "Introducing a new vision to help my organization survive recent changes"—a reframing that no longer felt selfish to him.

Develop new versions of yourself. Now that your goal is well framed, it's time to take the first steps toward change. As a start, gather clues about how your ghosts work. When do the negative ones take over? Are there predictable dynamics or triggers that summon them? When this happens, how does it affect the way you feel, think, and act? What scares you about change? With a better understanding of when and why negative ghosts take over and how they impede your development, you'll open up some space for self-reflection and change.

One way of doing this is to create what the leadership expert Herminia Ibarra calls "provisional selves"—new versions of yourself that do not set off your ghosts. The key

here is to identify role models who are successful at doing what you want to do. It doesn't matter if you know these people or not. Analyze everything you can about their behavior as it pertains to your challenge, and try to figure out how they met similar ones. Finding multiple role models is vital, because you want a whole range of behaviors to try without the interference of your ghosts.

Sarah managed this step effectively. She began by studying women executives who actively advanced their own careers but simultaneously were empathetic and supportive to their peers and employees. She found it surprisingly liberating to realize that not all leaders worried that their successes would hurt others. Taking her cues from these women, she fashioned some provisional versions of herself to try out—more-assertive selves that also praised fellow employees. In this way she allowed herself to keep the ghosts of her brother and parents at bay and move ahead with her work as CEO.

Experimenting with new behaviors is not enough. Reflection is important too. Did your new ways of acting lead to positive changes? Or did your old thoughts and feelings still interfere? By paying careful attention to your answers, in time you'll be able to move in new directions.

ULTIMATELY, LEADERSHIP IS about imagining the future that you want to create, for your organization and for yourself. The steps we've described involve making short-term changes, all of which are important, but you can also follow the same steps as you develop a long-term vision for your new self.

To reach your full potential at work, ask yourself these questions: What kind of leader and colleague do I want to be 10 years from now? Can I find or create a place that will be hospitable and nurturing to the person I hope to become? Which family ghosts should I embrace and celebrate—and which should I finally leave behind? 🧠

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MANAGING
PEOPLE

Manage Your Organization as a Portfolio of Learning Curves

Use this approach for talent
development, succession planning,
and team configuration.



MANAGING
PEOPLE



ABOUT THE ART

For his Formula 1 series, photographer Dinesh Boaz leaned out of helicopters to achieve a top-down view of the patterns and colorful terrains of racetracks.

Nearly a decade ago I realized that the S Curve could be a powerful career-management tool.

Popularized by Everett M. Rogers, who used it to show how new ideas and technologies spread, it also describes the trajectory that people move along as they develop competence in a new domain of expertise. I call it the S Curve of Learning. Growth is slow and effortful at the outset, known as the *launch point*. That phase is followed by rapid upward progress as people acquire new skills and overcome setbacks: a stretch I think of as the *sweet spot*. At the peak is *mastery*—when work becomes easier, but the curve flattens because there is little left to learn. When that happens it's time to jump to the bottom of a new S Curve, put in the effort, and experience the thrill of climbing again.

The S Curve of Learning doesn't just help people build their careers. It's also valuable for managers—a simple visual they can use to start conversations with their reports and make decisions about their teams. Zoom in, and you can evaluate where an individual is on his or her curve—and then create a tailored talent-development plan that will maximize the strength of that single thread and its

contribution to the whole cloth. Zoom out, and you can figure out how to weave your team's S Curve threads together to create a harmonious tapestry.

Once you understand the S Curve of Learning, you can apply it in a variety of ways in business. This article discusses three: talent development, succession planning, and team configuration.

Talent Development

Human development happens naturally. We do, after all, have growth as our default setting. But managers don't want to be entirely at the mercy of nature; they want to proactively develop their people, and they can.

The S Curve of Learning offers managers and their teams a common language for discussions about personal growth and talent development—about people's progress in their roles and their future with the organization. When one of your reports says, "I'm at the launch point," you'll know that person is struggling to gain traction. When someone says, "I'm in the sweet spot," he or she has momentum and is feeling competent and confident. And when you hear an employee say, "I'm in mastery," the message is clear—"I know I'm good at this, but I can't keep doing it—I need a new challenge."

Sumeet Shetty, a development manager in intelligent enterprise solutions at the software maker SAP, uses the S Curve of Learning adeptly. Based in Bangalore, India, Shetty is an exceptional leader and coach, recognized for his track record of building high-performance teams. How does he go about it? For starters, he has career conversations with every person on his team (currently 35 members). "I talk to my people about what they want to do now, their purpose in life, and the general direction that they want their career to go in," Shetty says. After identifying where someone is on the learning curve, he says, "I then prepare a very customized personal development plan." The plan lays out activities that the team member can do to get closer to his or her ideal career path. Often, Shetty assigns mentors from within SAP or outside the company, drawing on his personal network, to coach his team members. Each person's plan also contains a minimum of two reading recommendations. "One is



IDEA IN BRIEF

THE CONCEPT

The S Curve of Learning describes the typical trajectory individuals experience in a new job: a period of slow progress, followed by a rapid ascent as learning quickens, and then culminating with a sense of mastery at the peak.

THE INSIGHTS

People's positions on the curve reveal whether they are ready to seek new challenges and what kind of development plan their managers should craft for them.

THE APPLICATIONS

Understanding employees' curves can help managers develop succession plans, recruit talent that may need stretch roles to stay engaged, and build a team of people with diverse but complementary strengths.





MANAGING PEOPLE

a technical reading—something to do with programming and computer science. The second one is completely different,” says Shetty (who also runs India’s largest professional book club). For example, he assigned one especially creative employee the Adam Grant book *Originals*.

Shetty meets with each team member every two weeks. All his reports are assigned to keep a reflection journal, in which they record what they’ve done, what they’ve learned, and what they see as the impact of their work on the team and the company. Half of each one-on-one meeting is spent reviewing the journal, and the other half is devoted to the personal development plan.

In these conversations, Shetty watches for leadership potential, and he’s always looking for open roles for the people who have it. A couple of years ago he put a technically focused employee—someone who’d never said he aspired to be a people manager—in charge of a small team. Shetty told the new manager: “I see that it’s possible. You can learn. And I’m happy to help you.” In a subsequent one-on-one, the employee reported that his transformation from technologist and individual contributor to leader was something Shetty had seen in him that he had not seen in himself.

Shetty views employees not just as occupants of roles the company needs but as dynamos of latent potential who can take on even bigger tasks in the future. That mindset is common among smart managers. They recruit candidates who with some investment in training and mentorship can help the company achieve its long-term goals.

Consider Brittanie Boyd. A former college athlete, Boyd worked in guest services at the stadium for the NFL’s Dallas Cowboys before moving to Barclays Center, the arena for the NBA’s Brooklyn Nets. It wasn’t as if Boyd went unnoticed there. After a few years at the center she rose to senior manager in her department. But then Scott O’Neil, who at the time was the CEO of Harris Blitzer Sports & Entertainment (HBSE), which owns and manages the NBA’s Philadelphia 76ers and the NHL’s New Jersey Devils, spotted Boyd and recognized that she was a potential star—not merely in guest services but in the sports-marketing industry. O’Neil could tell that Boyd was nearing the top of her guest services S Curve, if not perched there already. So he lured her away to HBSE with a promise: Join us, and I will give you new opportunities to grow.



Keeping people who've reached the mastery stage in a role for too long carries risks. An employee can become complacent or a flight risk.

"A major component driving my decision to leave Brooklyn and join HBSE was executive leadership here," Boyd told me. O'Neil had a reputation for getting rookies off the bench and teaching them to play new positions.

Boyd advanced quickly in the HBSE organization, rising from director of guest experience to vice president of business operations—a serious vertical leap. O'Neil had prepared her for it by setting her up with another experienced mentor. "Go talk to Donna Daniels," O'Neil told her. "Do a few projects for her." At that time, Daniels was EVP of business operations. Characteristically, Boyd caught on fast. She began helping Daniels manage key arena partners like suppliers of food and beverages and merchandise. This took place long before business operations became her *de facto* job. But O'Neil's philosophy was always something along the lines of "Go do the job you want to have, and someday it will be yours."

Managers like Shetty and O'Neil sometimes spot the right new S Curves for their reports before those people themselves do. Then it's time for a push. For Boyd, the push came when O'Neil made her his chief marketing officer. Boyd felt some entirely understandable trepidation. She knew the role would come with a steep learning curve of its own, and she'd be starting from the launch point. But O'Neil saw that even if Boyd didn't know the specific job terrain, she knew how to grow. His approach is to give employees the courage to see themselves not as a different job title but as a different person—someone with mastery in a new domain. Learn, leap, repeat.

Of course, not everyone in an organization will have the same vision for an employee. Some might not automatically support a role change or a neophyte trainee from another department. O'Neil acknowledges that Boyd's most recent promotion was met with questions: "She's the senior vice president of marketing? How much marketing experience does she have?" His response was "Does it really matter? She's smart, and she hires extraordinary people and builds great teams."

Succession Planning

It's almost cliché at this point to talk about the importance of succession planning. We generally think of it as preparing a person to step into a role when its current occupant moves on to something new. It's a critical task for any organization.

But that view of succession planning is incomplete. In addition to thinking about "Who next for the organization?" great managers are always considering "What next for the individual?" Doing this well involves anticipating which people might move on and when, identifying team members who might assume *this* role, and then thinking about those who could backfill *that* role.

Shetty says, "I look at my team as a portfolio of S Curves. If your people are on the right S Curve and you give them the support, the portfolio will neatly organize itself."

Managing this portfolio is similar to playing a chess game. Unlike checkers, which are all the same and move the same way, chess pieces are different and serve unique purposes. A good chess player, like a good leader, understands the individual moves of the various pieces and can deploy them in complementary roles. A great leader (or chess player) can coordinate those roles while thinking several moves ahead.

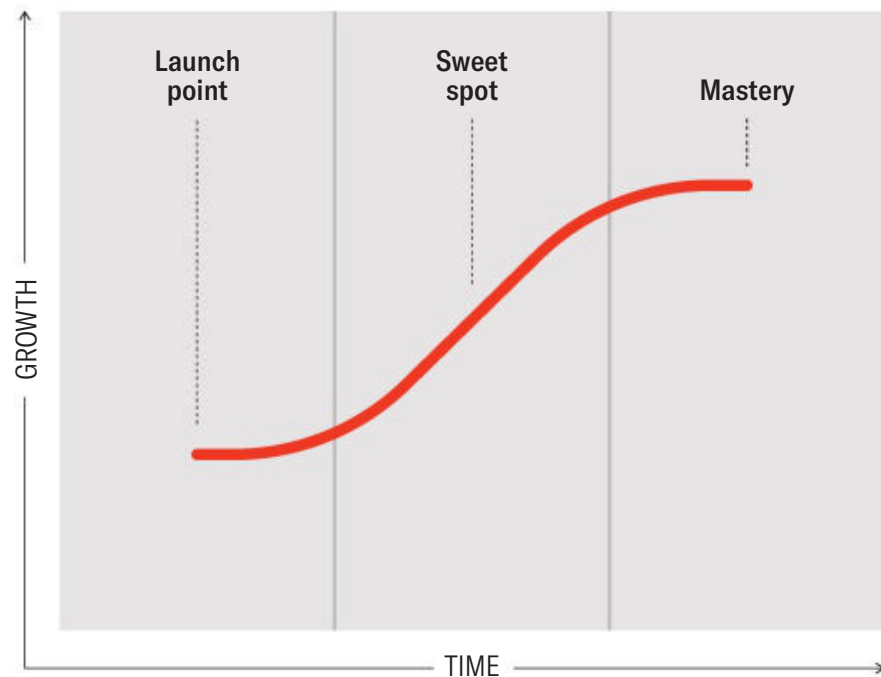
But S Curve gurus know that people aren't as predictable as pawns. People are not objects to be acted on but free agents, capable of acting for themselves. They can leave our chessboard and go play for someone else. They don't have a set of prescribed moves, and they can't fill the same role forever. If their managers can't find a way to steepen their learning curves, they will eventually move to new organizations and new managers who can.

Retaining talent demands not only reading the signals but understanding how your employees are interpreting your reactions. Do they know that you recognize when they're getting restless and looking for a new challenge? Is it clear from your conversations that you have the same perception of their position on their S Curve of Learning and have a growth plan for them? Where a manager thinks people are on the curve is less relevant than where the employees think they are.

The S Curve of Learning Framework helps you anticipate these moments, rather than having them sneak up on you. You can see when the high-contribution sweet spot is about to yield to mastery, and shortly thereafter, boredom and stagnation. Keeping people who've reached the mastery stage in a role for too long carries risks. An employee can become complacent or a flight risk. And if, as an organization or team, most of your people are in the sweet spot, humming along, you may be courting the danger that your

How People Develop Expertise

The S Curve was originally used to show how ideas and technologies spread, but it's also a useful tool in plotting your career—or coaching others. For most people, growth is slow at the launch point. They progress rapidly during the sweet spot, and exhibit mastery of skills at the peak. When that happens, growth slows, and it's time to jump to a new S Curve.



entire team could suddenly be in mastery, setting off a wave of departures. Counter these risks with succession planning for each individual.

Kara Goldin is the founder and CEO of Hint, which makes an all-natural fruit-infused water. In a little more than a dozen years, Hint reached \$150 million in revenue—the kind of fast-paced growth that requires a leader to think ahead. One day Goldin asked one of her top employees, “Do you like what you’re doing?” He replied, “I love what I’m doing.” Goldin’s surprising response? “You should really hire someone to replace you.” Her reasoning: Despite his happiness, the employee would soon reach the mastery point and become bored. Finding and training his successor would provide a fresh challenge—and allow him to look for another opportunity within the company while he did it.

The best time for both types of succession planning—individual and organizational—is when things are going well. If you haven’t prepared someone to assume a role when the person currently in it moves on, your team will suffer a decline in productivity while you recruit, hire, and onboard a successor. Goldin advises her employees not to wait for annual reviews but to say constantly to senior management: “Listen, I love my job; I really enjoy what I’m doing. I feel I’m performing really well, but what else can I be doing?” In other words they should ask, What is the succession plan for me? What can I add to my role? What is my next role?



MANAGING
PEOPLE

When Eric Schmidt was the CEO of Google, he hired Patrick Pichette to be its chief financial officer. (Pichette is now a partner at Inovia Capital and the chairman of the board of Twitter.) Before arriving at Google, Pichette had already served as the president of operations at Bell Canada and before that as the vice president and CFO of another Canadian telecom company. At first, Pichette had little interest in a third tour in operations. “The job was not what I wanted at all,” he told me.

Schmidt understood the challenge of hiring an employee who was already in mastery on the S Curve of the CFO role—and that it would mean offering a continuing stream of new learning opportunities. In selling Pichette on the role, Schmidt acknowledged that Pichette’s previous experience as a CFO was both a positive and a negative. “After 18 months you’ll be completely bored. I’ll tell you what. I’ll hire you as CFO, and every time it looks like you are about to lose interest, I’m going to add stuff onto your plate,” Schmidt promised. Over the next seven years, Pichette’s duties expanded beyond his CFO role to include people operations, real estate, employee services, Google Fiber (which offers broadband access), and Google.org (the tech giant’s non-profit arm).

Building an A Team

It’s important to support all your team members, regardless of where each person is on the journey to mastery. Ask yourself, Would a wise investor put all her money into just one or two companies? The answer is a hard no. Likewise, a wise leader wouldn’t stake a team’s success on just a few employees in the sweet spot. You want people who have a variety of aptitudes and ambitions, and you want a balanced portfolio of people at different stages of growth. People in mastery have deep experience, people at the launch point bring fresh perspectives, and those in the sweet spot have both the enthusiasm and competence to breathe life into a project. Although every team is different, many look like a bell curve, with most members in the sweet spot at any given time and a small percentage of people at the launch point and in mastery. When putting together a team, smart leaders make sure they have people on all major phases of the curve—what I call a *matched team*.



MANAGING
PEOPLE



When you throw people into challenging jobs that they're not completely prepared for, you need to make sure they have a great support team.

Dan Miller, who has been a manager on the supply chain side of the business at Under Armour for nearly a decade, believes that a team comprising people at different stages of the curve is better equipped not only to put out today's fires but also to fight the new kinds of fires that may develop tomorrow. He explains: "If I think a process is broken—or there's an opportunity—I typically bring in field experts, people who would, on that specific topic or project, be at the mastery level. But then I also bring in people who are aware of the process but are in the entry-level phase of the project. I do that to inspire creativity."

One of the best ways to generate new ideas and thinking is to give people in mastery a nudge. Miller says, "When I feel somebody is in that complacency stage or nearing it, that's when I really start to push into hyper gear to get them leaping to something." Challenging an employee in mastery to take on a new role can have a high ROI. The employee becomes a novice again and commits to an unfamiliar learning area. And rapid growth is in the offing when that person traverses the slow phase of the curve and tips into the sweet spot, unlocking latent innovative capacity.

Many leaders I speak with—and perhaps you—sometimes worry that pushing employees at the top of their S Curves back to the launch point is a risk they can ill afford. People who are excelling in their roles are by definition valuable in those roles. So how do you help them grow without losing that value?

It can be done—as Kraft Heinz demonstrates. The global food giant thinks about the S Curve of Learning when considering who might be given a stretch role. "We usually like to promote people to roles that they are not ready for," says global chief people officer Melissa Werneck. "It cannot be zero experience, but if you wait for someone to be 100% ready for that specific job, I think the curiosity in them, the daring to do better every day, won't necessarily be there."

Take Yang Xu. As senior vice president for global treasury, "Yang was at the top of the S Curve with treasury," Werneck recalls. "We needed her experience there. I said, 'Look, we cannot afford *not* having Yang in here. But we need to offer Yang a new experience in order for her to have some butterflies in the stomach.'" Treasury is an external-facing role, and Werneck wanted Xu to move into global business, taking on a COO-type role where she would need to understand the internal

workings of the vast company—and functions like pricing and manufacturing. And that meant moving, in the literal sense, to Amsterdam. Xu recalls feeling "tons of butterflies" in her stomach, just as Werneck intended. But Xu also recognizes these types of reassignments are part of Kraft Heinz's distinctive culture. "It's this unique combination of putting people in before they're ready and giving them ownership," she says.

When you throw people into challenging jobs that they're not completely prepared for, you need to make sure they have a great support team. Werneck says she approached that task by asking, "What portfolio of S Curves do I need to put in place around Yang so that she is successful in this new role?" Werneck's approach became the model for the matched portfolio. "My first conversation with Yang about M&A was, 'You need to really build your team. You are very strong on this, this, this, and this. You need to bring someone that complements you on X, Y, and Z.'" Since Xu was new to the role, that meant bringing in a few people near the top of their curves to complement her position at the launch point.

Pamay Bassey, Kraft Heinz's chief learning and diversity officer, says building the matched portfolio is like the game Tetris. Every block—every person—can play a crucial role. But leaders have to be at the ready to fit these unique individuals into the organizational structure, where they can both find support and give support to others.

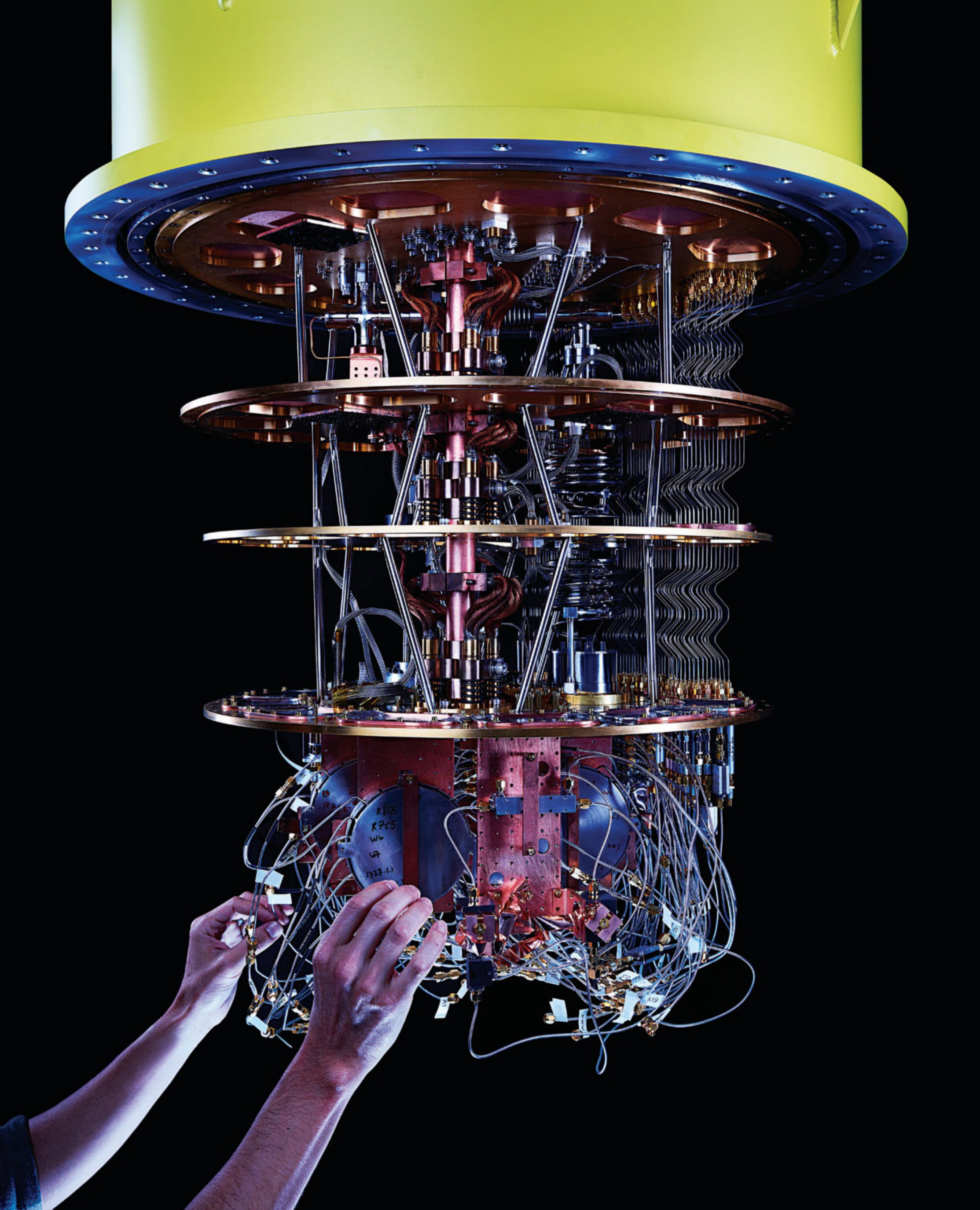
IN OUR WORK at Disruption Advisors we increasingly meet with leaders who find the S Curve of Learning to be a helpful management concept. Great managers use it to facilitate conversations about personal growth and talent development. It helps them identify where employees are in their progress in various roles and prepare effective succession plans for both the organization and individuals. And by visualizing their team as a portfolio of S Curves, they can make sure its members complement and balance one another—and are prepared to win, whatever the future may bring. ©

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WHITNEY JOHNSON is the CEO of Disruption Advisors, a tech-enabled talent-development company, and the author of *Smart Growth: How to Grow Your People to Grow Your Company* (Harvard Business Review Press, 2022), from which this article is adapted.







Quantum Computing *for* Business Leaders

Will the
reality
live up to
the hype?



IT MANAGEMENT



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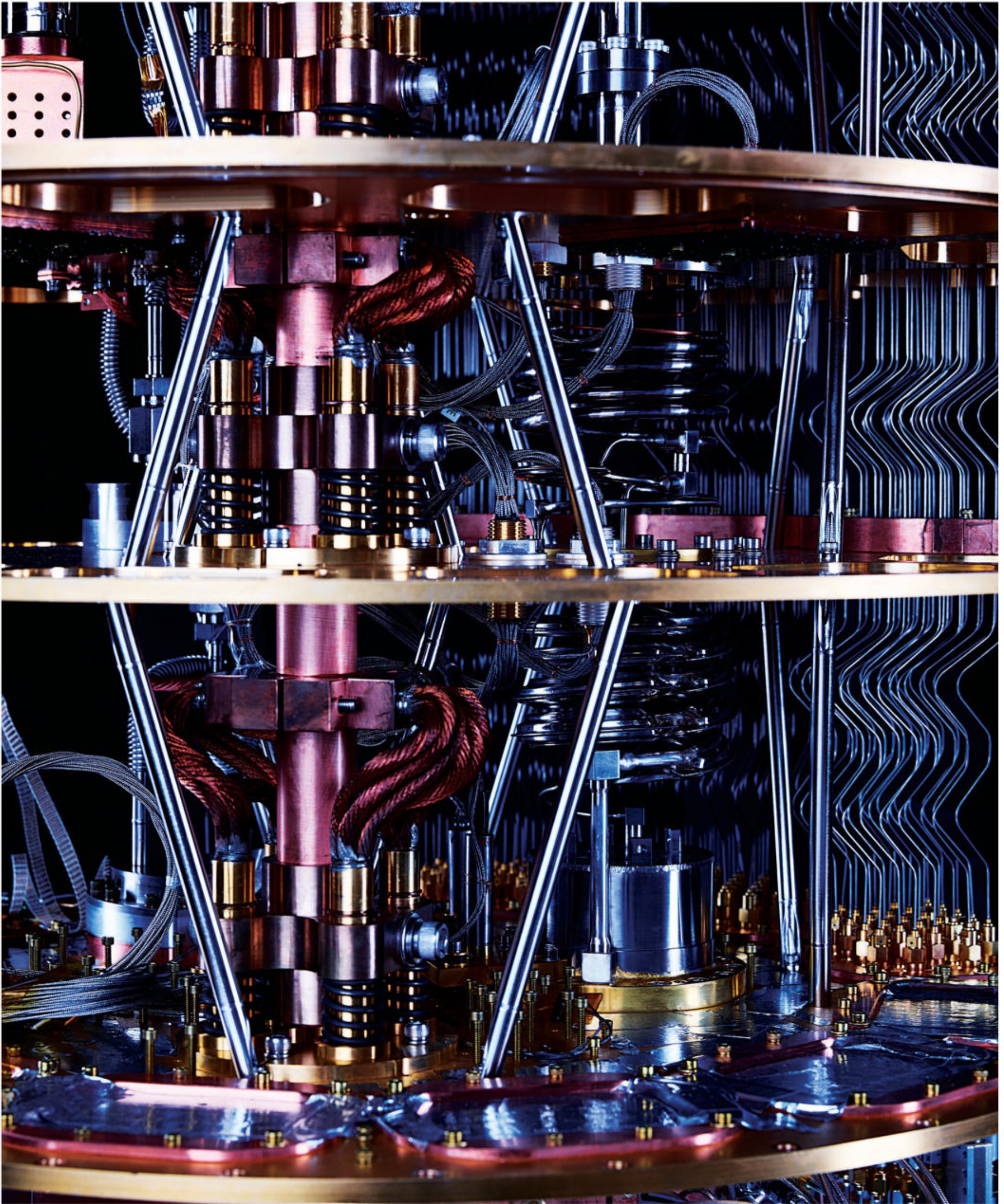
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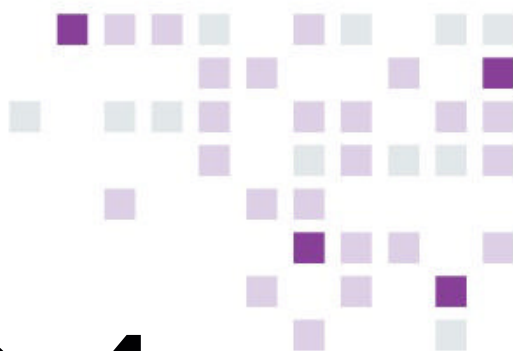
ABOUT THE ART

Photographer Spencer Lowell captured these images of Google's superconducting quantum computer in 2017. At the time, it was one of the most sophisticated general-purpose quantum-computing machines in the world.



IT MANAGEMENT

In 1994,



MATHEMATICIAN PETER SHOR INTRODUCED a quantum-computing algorithm that could reduce the time it takes to find the prime factors of large numbers from billions of years using a conventional transistor-based computer to a few days using a quantum computer. This was an enormous breakthrough, because prime factorization is the foundation for much of our present encryption and information security infrastructure. Seven years later, IBM scientists successfully demonstrated the algorithm on a quantum machine—albeit a very small one—for the first time, proving that quantum computers could be built and that Shor's algorithm could be implemented.

Quantum computers solve many problems exponentially faster and with less energy consumption than classical, or binary, computers. To understand why, imagine a two-dimensional maze. A classical computer needs to run one path after the other until it finds the way out of the maze. If the maze comprises 256 possible paths, the classical computer

has to run through the maze about 128 consecutive times (on average, half of a maze's paths must be tried to find the right one). A quantum computer, however, is able to work with all 256 paths at once. To put it a bit differently, an 8-bit classical computer can represent only a single number from 0 to 255, but an 8-qubit quantum computer can represent *every* number from 0 to 255 simultaneously. How is that possible? The answer is based in fundamental laws of quantum mechanics: While a classical-computing binary unit, or bit, can hold a value of either 0 or 1, a qubit (short for quantum bit) can represent 0 or 1—or it can hold both values at the same time.

Quantum computing will enable businesses to better optimize investment strategies, improve encryption, discover products, and much more. Tremendous levels of investment, private-sector competition, and mathematical and scientific talent are currently being devoted to quantum research. Venture capital funding in the space grew by 500% from 2015 to 2020, according to CB Insights. PsiQuantum, a quantum-computing start-up founded in 2016, has already raised more than \$665 million, including investments from BlackRock and Microsoft. Research and development heavyweights Honeywell, IBM, and Intel are also in the race to deliver the next quantum breakthrough. Consulting firms are building deep talent pools to support clients; Accenture has more than 15 teams and 100 experts focused on quantum globally. (Disclosure: Accenture provides financial support to MIT's Initiative on the Digital Economy, where two coauthors of this piece work.) In May 2021, Google committed to spending several billion dollars to build a functional quantum computer by 2029, and its new campus for quantum

IDEA IN BRIEF

THE PROMISE

Quantum computers can solve problems exponentially faster than classical computers can. They will bring about two huge changes: an end to our current infrastructure for cybersecurity over public networks and an explosion of algorithmic power that holds the promise to reshape our world.

THE CHALLENGES

Scientists face myriad challenges in developing commercially relevant quantum computers. But once they are overcome, the disruption caused by postquantum cryptography will eclipse that of Y2K, which cost the United States and its businesses more than \$100 billion to mitigate.

THE IMPACT

This article examines the way quantum computers will not only upend digital security but spur investment, reshape industries, and spark innovation.



AI in Santa Barbara will house hundreds of quantum-dedicated employees, a quantum data center, research labs, and quantum-processor-chip-fabrication facilities.

This is the type of environment that so often in the past has produced breakthrough advances in technology. And make no mistake: The quantum-computing breakthrough will be a big one. It will bring two huge, simultaneous, and sudden changes to the modern business world: The first is an end to our current infrastructure for ensuring digital privacy and security over public networks, leaving companies that have not upgraded their infrastructure wide-open to devastating attacks. The second change is much more positive; it's an explosion of algorithmic power that will let us do things with computers that are impossible today and that hold the promise to reshape our world.

When will a commercially relevant quantum computer be available? Almost 20 years have passed since the proof-of-principle demonstration of Shor's algorithm, and scientists continue to face myriad challenges in developing large-scale quantum computers. Skeptics argue that it is too early to get excited—or anxious, depending on your point of view—about quantum computing's real-world applications. It's instructive to recall that the transistor was invented in 1947, yet the first 4-bit processor was not introduced for another 25 years, and it was another 25 years after that before Intel introduced the Pentium Pro chip with millions of transistors. Hard tech takes time, and quantum is no exception.

But quantum is coming, and it's not too soon for business managers to be thinking about how it will spur digital investment, reshape industries, and spark innovation. It won't make or break your business in the near term, but a solid understanding of quantum applications today is crucial for positioning your company to reap the benefits—and avoid potential catastrophe—during the next decade.

WHAT IS A QUANTUM COMPUTER?

The principles of quantum mechanics—the science of how matter and light behave at an atomic and subatomic level—are at the core of innovations such as MRI imaging, lasers, atomic clocks, and nanoscale microscopes. But utilizing those principles to build computers requires that we master an entirely new skill: precisely controlling the behavior of

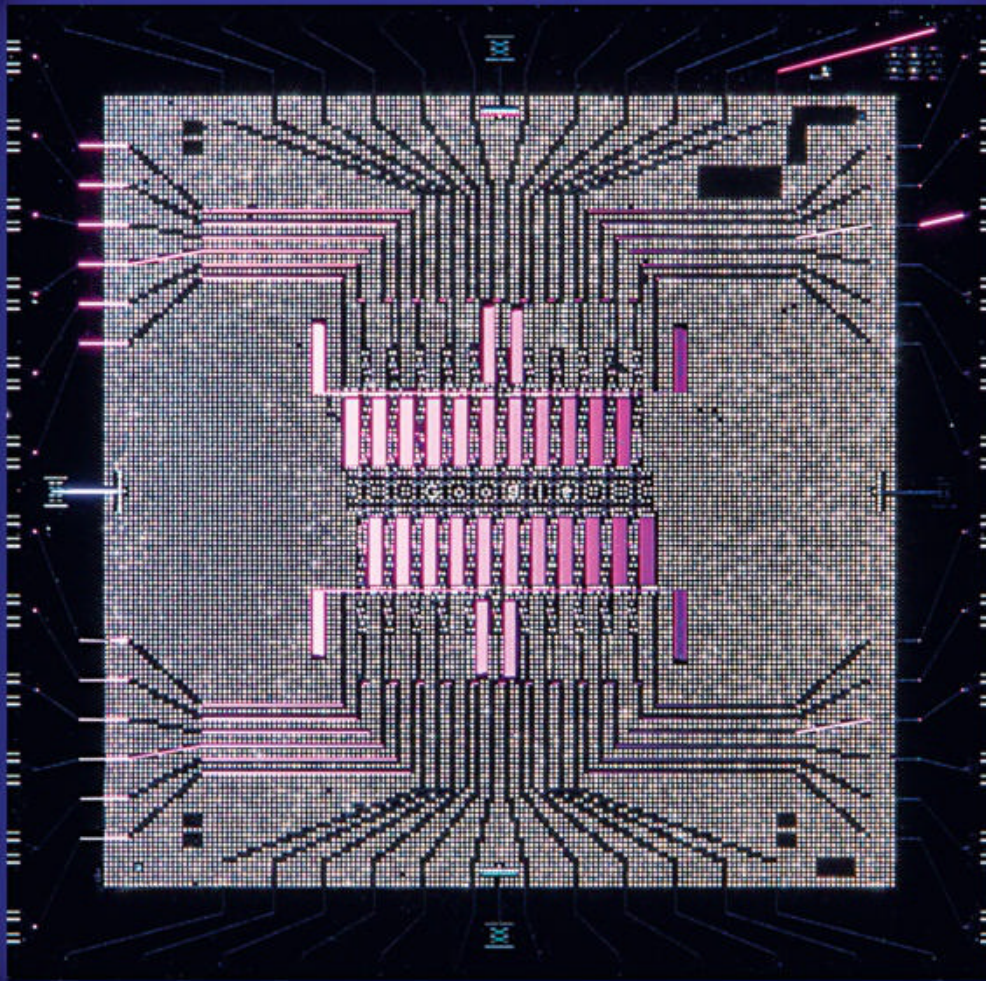
quantum systems while preserving their “weird” quantum-mechanical nature. This is a daunting task because quantum systems—like photons and electrons—are very delicate and unstable, and their behavior defies our ingrained view of how the physical world operates. But when harnessed correctly, their counterintuitive forces are features, not bugs, in unlocking new capabilities.

One of the most formidable obstacles to building functional quantum computers is that qubits don't stick around very long. Vibration, temperature, and other environmental factors can cause them to lose their quantum-mechanical properties, resulting in errors. Today, the rate at which errors occur in qubits limits the duration of algorithms that can be run. Scientists are working to build environments in which many *physical qubits* act together to create error-protected *logical qubits*, which can survive for much longer periods of time—long enough to support commercially viable applications. It will most likely take some 1,000 physical qubits to make a single logical qubit; the most advanced quantum computers today have only 50 to 100 physical qubits.

In the past couple of years corporations have become much more involved in building quantum computers. Both IBM and Google, two of the most optimistic technology companies in this space, believe a logical qubit will be demonstrated within two years. As with transistor-based computing, commercial viability will not occur all at once but rather will grow steadily as the number of logical qubits increases and error rates come down.

HOW BUSINESSES CAN USE QUANTUM COMPUTERS

Few firms will build or own quantum computers in the near term. Instead, we'll see a cloud-computing-style model where companies rent access to quantum machines hosted by a relatively small number of specialist providers, similar to how companies today purchase computing from AWS, Google Cloud, and Microsoft Azure. (Disclosure: Research by coauthor William Oliver has been supported by these and other companies mentioned in this piece.) Quantum computers will not be used in isolation but will be part of a hybrid solution in which tasks will be assigned to the most suitable machine (quantum or classical). A quantum-computing cloud infrastructure will enable the sharing of





resources and create economies of scale that lower costs and increase access, which in turn will drive demand and accelerate progress.

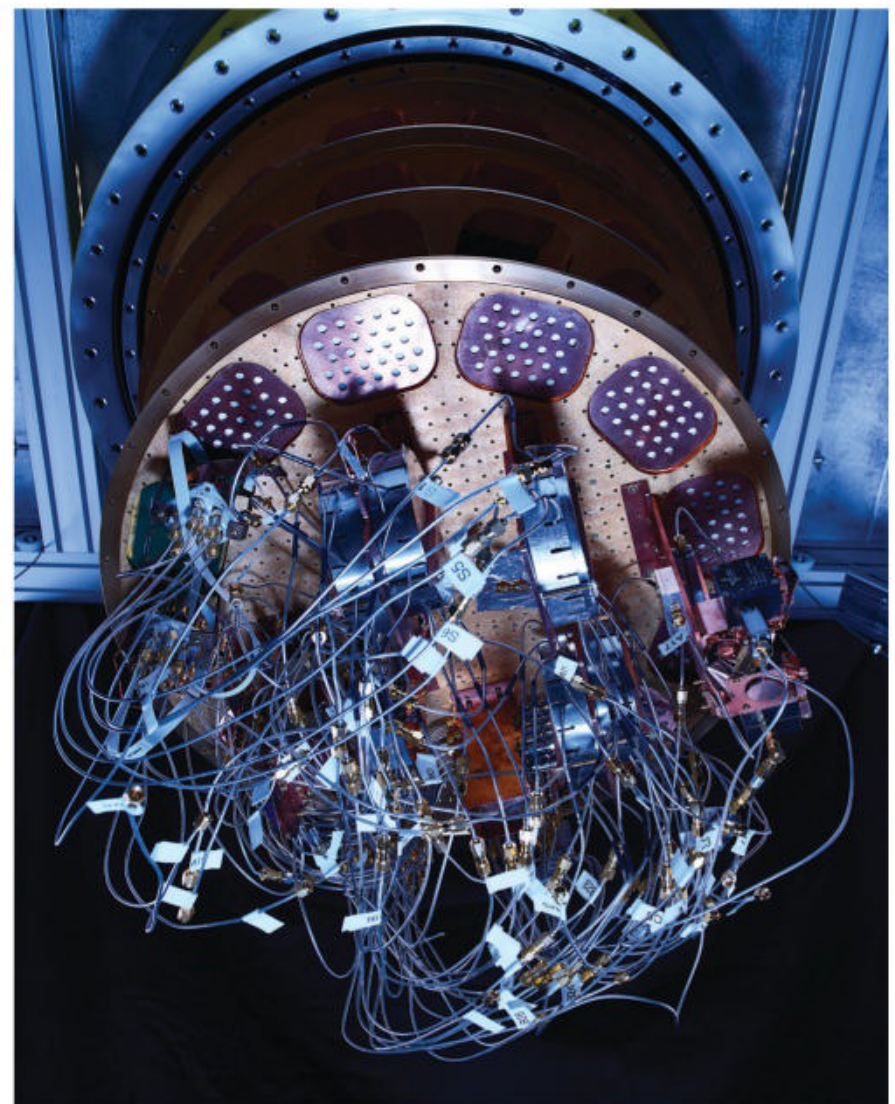
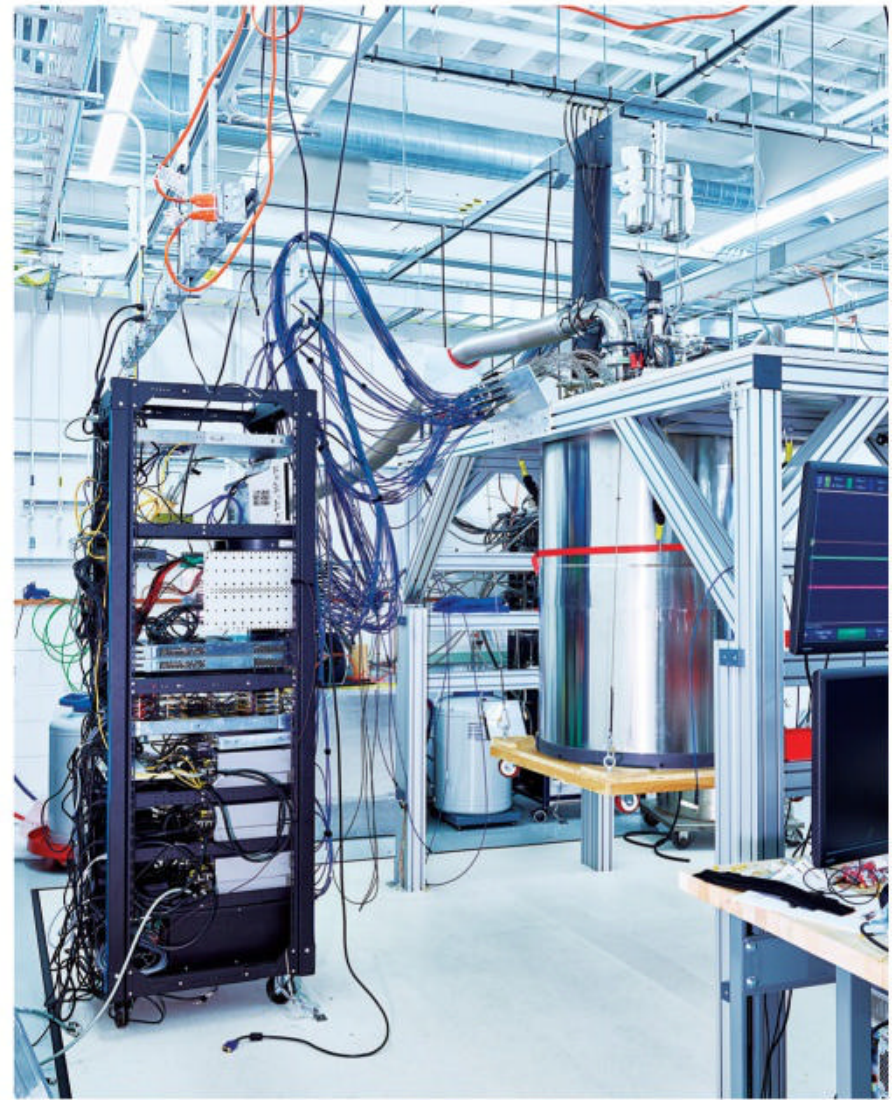
As quantum hardware and software improve, algorithm designers will be empowered to experiment and iterate on their ideas and hunches. They'll be able to refine existing algorithms and create new ones without having to wait years between development and testing on a functional machine.

Quantum algorithms are very different from the algorithms classical computers use. Those most likely to apply to business processes fall into five families; some of them will allow us to do standard tasks much more quickly, while others will let us seize entirely new opportunities.

I Simulation. When quantum pioneers such as Richard Feynman and Paul Benioff first envisioned the quantum computer, they believed that it would unlock secrets to how nature works. We are starting to bear witness to their vision. For example: The modeling of a chemical reaction with 100 strongly correlated electrons (nitrogen fixation is one such reaction) is out of the reach of powerful classical computers. But in 2017, a team led by Markus Reiher, a professor of theoretical chemistry at ETH Zurich, calculated the scale of the quantum system needed for the task and introduced a viable approach. The team found that the goal is achievable using a cluster of advanced machines of about 100 logical qubits each. Examples of the breakthroughs that could emerge from the modeling of natural processes abound. Here are three:

→ **Chemistry.** In the early 1900s, Fritz Haber and Carl Bosch developed an industrial process for nitrogen fixation that synthesizes ammonia directly from nitrogen and oxygen—a process still used today to produce fertilizer for crops that feed billions of people around the world. Incredible as the discovery was more than a century ago, it has come at a steep cost: The Haber-Bosch process is now responsible for 1% to 2% of global energy consumption and 1.4% of CO₂ emissions. We can do better, and quantum computing can help.

For example, we know that a naturally occurring enzyme can achieve the same results as the Haber-Bosch process while expending only a fraction of the energy. Unfortunately, the limitations of classical computers prevent us from





We may be able to better fight global warming if quantum simulations can tackle materials-science problems, such as finding compounds for more-efficient batteries.

modeling the exact chemical reactions that the enzyme uses. A quantum computer will one day be able to do so, thereby creating new opportunities for chemical companies to produce fertilizer and other products in more energy-efficient ways.

→ **Energy.** A type of nuclear fusion known as inertial confinement fusion uses powerful lasers to compress tiny pellets of fuel, generating extremely high temperatures under the right conditions. In theory, the amount of energy released from this process could be greater than that used by the lasers, making it a viable energy source. Achieving this in practice, however, depends on configuring the vast number of possible parameters of the process with incredible precision—something classical computers have done with only limited success. Google engineering director Hartmut Neven believes quantum computing can aid in the design of better reactors, opening up the potential for an abundant form of clean energy.

→ **Life sciences.** In 2018 three Harvard chemists published a paper outlining the potential of quantum computing in drug discovery. They detailed how the technology could yield substantial progress by enabling faster and more-accurate characterization of molecular systems. The same year, the researchers cofounded Zapata, a quantum-computing start-up that has since raised more than \$65 million in venture capital.

It's not just start-ups that are looking for new molecules using computers rather than test tubes. QuPharm is a consortium of 17 pharma companies, including AbbVie, Bayer, GSK, Takeda, and Pfizer, that are pooling expertise to accelerate progress in quantum hardware and software. In 2019, biotech firm Biogen and Canadian quantum-computing specialist IQBit collaborated to develop a quantum-enabled molecular comparison tool, an important part of virtual-screening experiments deployed during the early stages of drug discovery.

Other researchers are examining how quantum could provide new insights into chemical mechanisms such as photosynthesis. We may also be able to better fight global warming if quantum simulations can tackle materials-science problems, such as finding compounds for more-efficient batteries, better solar cells, and new kinds of power lines that transmit energy more efficiently.

2

Linear systems. Equations of linear systems are at the core of many classical-computing applications in engineering, finance, chemistry, economics, and computer science. Quantum computing offers the potential for an exponential improvement in sampling solutions to such equations. (We already know of one such algorithm, called HHL, codeveloped by some of our MIT colleagues.) The most promising linear-systems applications may be in the area of enhanced machine learning. There has been an explosion in the adoption of neural networks—a means of training a computer to perform a task inspired by the way the human brain works—to power a wide variety of applications. This has been accompanied by an increasing need for enhanced training of the computer models.

Take recommendation systems, for example. Netflix models preferences in a large matrix across all its subscribers for all the movies in its archive. Its goal is to recommend films to users that they have not watched before. A quantum algorithm may be able to make such recommendations faster and more accurately than classical computers can, particularly when the number of dimensions in the matrix is very large.

Another linear-systems application could be improving the ability of AI to derive useful information from photos and videos. Researchers from leading quantum firms, for example, recently published a paper detailing how quantum computers might work with classical computers to create original images and videos. In a demonstration, the system produced high-resolution images of handwritten numbers using a machine-learning technique called generative adversarial networks (GANs). Although the output may sound rudimentary today, imagine a future Pixar movie in which elements of a fictional world are created and organized not by graphic designers but by quantum computers. Applications of quantum GANs could include generating 3D objects in architecture and building synthetic DNA data in genomics research to produce novel molecules for cancer treatments.

One of the challenges facing linear-systems algorithms—and other types, as we shall see—is what's known as the data-loading problem: how to transfer large amounts of classical data into quantum computers. Solving that problem will mark a significant milestone in commercial viability.



IT MANAGEMENT

3

Optimization. Algorithms for optimization determine which decision in a given scenario is most likely to attain a specific objective. An investment manager, for example, tries to find the optimal retirement strategy for a client by balancing expected returns with some measure of risk. Quantum optimization algorithms can improve the quality of the solutions and increase the computational speed in finding them.

In May 2021, Zapata announced the results of research it conducted with Spanish bank BBVA to investigate the practical application of a quantum system in creating credit valuation adjustments (CVAs)—a regulatory requirement put in place to minimize systemic financial risk. The project focused on a Monte Carlo simulation, the standard technique for CVA risk analysis. The calculations underlying the simulations are complex and time-consuming for classical computers because they must account for a wide range of possible credit-default scenarios. Zapata and BBVA's research identified the potential for speedups over classical machines as the error-correction rates in future generations of quantum computers improve. Large banks are already investing in the space: Goldman Sachs and JPMorgan Chase, as well as BBVA, have entire teams dedicated to researching the possibilities of quantum computing in banking and finance.

Optimization algorithms benefit companies in a wide range of other industries. Any business that depends on finding the best supply-chain routes or increasing the productivity of a manufacturing facility already knows the importance of optimization in improving performance. Most optimization problems can be adequately solved using classical computers and algorithms. Imagine that you want to optimize your 20-mile drive home from work. Google Maps can approximate the best route without exhaustively trying every single alternative. Whether it chooses the absolute best route or one within a minute of it will not make much difference to you. But for much-larger-scale challenges and those for which incremental improvements are immensely valuable, quantum-computing optimization algorithms may be a game changer.

4

Unstructured search. When a classical computer needs to find an exact information target in an unstructured database, it must search line by line

until it finds a query match. But each search result the computer generates gives it no additional information; that is, negative results do not narrow down the possibilities for subsequent searches. This is one of the most basic computer science problems. To find the information faster, one can run multiple classical computers, each searching line by line. With quantum computing, searches can be conducted faster and across larger swaths of data. Applications that rely on database probing include internet search engines, real-time processing of credit-card transactions, and even scanning of astronomical radio waves for signs of extraterrestrial intelligence.

Grover's algorithm is a powerful quantum search theory developed in 1996 that could dramatically improve the way computers find information in a large unstructured database, solving what's known as the "needle in a haystack" challenge. Consider genomic technologies, which have provided transformative insights into microbiology—for example, identifying genetic cardiac disorders and offering great potential for real-time detection and surveillance of epidemics. These technologies need lots of computer power. Every time researchers map a DNA sequence to a reference genome, they must perform a massive search on classical computers. Grover's algorithm could greatly accelerate the speed of these searches, but they can be run only on a functional quantum computer.

In addition to these challenges, unstructured-data algorithms come up against the data-loading problem because they rely on the efficient input of large amounts of classical data into quantum computers.

5

Factoring and encryption. As we've discussed, prime factorization underpins much of current global internet security and privacy infrastructure. Bank balances, Bitcoin, credit cards, social media passwords, and just about everything else of interest to cybercriminals is protected by factoring problems that classical computers can't solve with brute force.

Quantum computing could upend this paradigm, making it much easier to crack the encryption systems we rely on today. In April 2021, the National Institute of Standards and Technology (NIST), the U.S. government body tasked with developing cybersecurity standards, warned that "we cannot predict when a quantum computer capable of executing Shor's algorithm will be available to adversaries, but...when that day comes, all secret and private keys that are protected using the current public-key algorithms—and all available information protected under those keys—will be subject to exposure."

Nefarious actors may not be able to crack current encryption, but they can easily acquire data in an encrypted format (by, for example, hacking into an internet service provider



Managers should ask themselves questions such as: What are our main uses for machine learning and other types of AI, and how much will quantum computing help in those areas?

and copying all the traffic that flows through it). Imagine if a hacker were to acquire and store encrypted data until a sufficiently sophisticated quantum computer was able to break the encryption. At that point, all the data would be exposed. To prevent such scenarios from happening, the transition to quantum-resistant cryptography must occur long before large-scale quantum computers are operational.

Cybersecurity techniques called postquantum cryptography that can be deployed by classical computers are currently being developed. NIST launched a public competition in 2016 to source algorithms that could potentially resist a quantum computer's attack. It is due to announce the results in 2022, but even when postquantum algorithms are identified, the process for deploying the new cryptosystems will require massive upgrades to software, hardware, and communications infrastructure. All existing sensitive data will have to be re-encrypted, and new infrastructure will need to be built to support new cryptographic algorithms.

Such remediation efforts will have a significant economic impact. Carl Dukatz, the quantum lead at Accenture, believes that the disruption caused by the move to postquantum cryptography will eclipse the work done to mitigate the Y2K problem, a process that cost the United States and its businesses more than \$100 billion. The transition away from quantum-vulnerable infrastructure needs to start years in advance of the arrival of large-scale quantum computers. It's easy to imagine that before too long companies will have to demonstrate to regulators or auditors that they're on track to being "quantum compliant," just as they had to show Y2K compliance in the late 1990s.

Luckily, the arrival of quantum computing isn't all risk, expense, and downside. It will bring about advances we can't yet foresee and offer such rich opportunities that the security and encryption transition accompanying the dawn of the quantum era will be one of its least-significant chapters.

WHAT MANAGERS SHOULD DO NOW

Even though a commercially viable quantum computer is not yet available, it's not too soon to get prepared. Managers should focus on two key activities: vigilance and visioning.

Vigilance means keeping an eye on how quickly progress is being made toward key technological milestones. These

include the demonstration of the first logical qubit, reductions in error rates, and a proven commercial—not just technical—quantum advantage over classical computers. Companies can track progress using sources such as expert panels and forecasting tournaments. In the months and years ahead, we may find that forecasts have been too conservative and that the quantum era will be here sooner than we thought. But if milestones remain stubbornly hard to reach, then classical dominance will continue for some time.

Visioning, or coming up with plans and scenarios for how quantum computing will affect your company, goes hand in hand with vigilance. In the short term, you should have in place a team of people who understand the implications of quantum computing and can identify the company's future needs, opportunities, and potential vulnerabilities.

As managers begin to wrap their brains around quantum computing and how it will affect their organizations, they should ask themselves the following questions: Where are we currently constrained by limits to computing capability, and are those areas amenable to any of the five families of quantum algorithms? What are our main uses for machine learning and other types of AI, and how much will quantum computing help in those areas? Finally, what biological or chemical processes would we like to be able to model at the foundational level?

UNLOCKING NATURE'S SECRETS was the first use of quantum computing envisioned by the field's pioneers, and it remains the most exciting one. Sometime in the first half of this century, we'll put qubits to work on that challenge—and many, many others. ☺ **HBR Reprint R2201H**



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Sensemaking for Sales



SALES



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Your customers are overwhelmed with information.
Help them figure out what they need to know.



PHOTOGRAPHER CRAIG CUTLER

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SALES

The amount of product and service information available to B2B customers has become overwhelming.

Analyst reports, corporate blogs, display advertising, email marketing, infographics, podcasts, white papers, word-of-mouth recommendations: All are competing for the opportunity to influence buyers. So much accurate and trustworthy information exists online that B2B customers dedicate only 17% of their purchase process to talks with potential suppliers. They spend most of their time independently researching vendors and the industry at large. The trove of easily accessible information has proved valuable, but it has complicated the purchase process. Too much information exists for buyers to make sense of it on their own.

The best sales reps have turned this conundrum into a prime selling opportunity. They've figured out how to optimize their limited customer contact to make the conversations they do have more useful and successful. They've won the right to more access by setting themselves apart from competing reps and alternative sources of information. They've helped customers prioritize perspectives, quantify trade-offs, and deconflict competing viewpoints. They do so by emphasizing simplicity over comprehensiveness. They employ a version of the Socratic method, not telling customers what to think but instead helping them create a framework within which to make their own decisions. The aim is to support customers regardless of the outcome. When the buyer's direction aligns with the supplier's capabilities, the reps make that abundantly clear; conversely, they bow out early and direct their attention elsewhere when alignment proves elusive. Above all else, they help customers make sense of the information they've encountered to make confident purchase decisions. Their approach is a form of *sensemaking*.

At Gartner, we surveyed 1,100 B2B customers about the topic. Nearly 90% agreed that the information they encounter as part of a purchase is generally of high quality; it's believable, relevant, backed by data, supported by expert analysis, and conveyed in a compelling manner. But they struggle to make sense of it. Fifty-five percent of respondents find the information to be trustworthy but relatively undifferentiated, leaving them straining to identify viable criteria with which to judge the trade-offs among suppliers. And 44% find the information to be trustworthy but contradictory; the various pieces are relevant and believable, but they suggest opposing directions.

Sales teams using sensemaking methods capitalize on those shortcomings by aiding, organizing, and simplifying buyers' product research. In this article we examine the sensemaking approach and the psychology behind why it's needed. We explore why it works from both the customer and vendor perspectives and describe how companies have used it to improve engagement with prospects.

WHY SENSEMAKING MAKES SENSE

When forced to decide in the face of overwhelming amounts of information, people often fall back on cognitive biases

Craig Cutler @craigcutlerstudio



Customers who report overwhelming amounts of information are 54% less likely than others to make a high-quality, low-regret purchase.

(See “Outsmart Your Own Biases,” HBR, May 2015). Common ones include anchoring (relying too heavily on the first piece of information offered), belief perseverance (clinging to one’s initial thought), and the status-quo bias, which in B2B buying often translates to customers’ saying, “We’ve decided to study this more. Call us in six months.”

The consequences for sellers are dramatic. Customers who report overwhelming amounts of information are 54% less likely than others to make a high-quality (premium price point, large-scope solution), low-regret purchase. Those who encounter trustworthy but contradictory information are 66% less likely to do so, while those who receive conflicting information on the trade-offs among vendors are 33% less likely. If more than one of the scenarios occurs, the impacts are cumulative.

What can sellers do? Our research identified two measures of customer perception that are critical for deal success. The first is the customer’s decision confidence: the degree to which the buying group believes it has determined the right questions to consider, prioritized the information that matters most, and identified consistent themes. Customers high in decision confidence have managed to make sense of the information and feel assured of their ability to make a potentially bigger, broader, more impactful decision. They are 157% as likely as others to complete a high-quality, low-regret deal.

The second critical dimension is trust in the seller. Things typically end poorly when a customer senses that a rep has failed to provide complete and accurate information because the rep is focused on meeting his or her own needs. Customers who are highly skeptical of a rep’s claims are 1.6

times less likely to make a high-quality, low-regret deal than are customers who believe their rep’s claims.

These findings demonstrate the urgent need for sellers to have not just a sales strategy but a clear information strategy as well. Reps must carefully consider what information to disclose when, how to present it, and—most important—how to connect it to everything else the customer is learning, all to ensure that they’re seen as proactive and objective in helping the customer make a confident, sensible decision.

SENSEMAKING VERSUS TRADITIONAL APPROACHES

Our analysis revealed three ways in which reps engage customers with information: giving, telling, and sensemaking. Although each approach is effective to a degree, sensemaking significantly increases the likelihood to buy. We conducted 1,010 interviews with suppliers, asking about their information-sharing strategies. Only 21% of responding reps have adopted a sensemaking technique. Thirty-five percent rely on telling, 18% on giving, and 26% have no information-sharing strategy at all. No particular demographic data, such as a rep’s age, years of selling, or years of selling at a given company or in a given industry or geography, had any real bearing on sensemaking capability, likelihood of using the approach, or success using it to close a deal. In other words, sensemaking sellers aren’t trying to solve a specific industry or demographic challenge. They’re focused on the universal challenge of information overload (see the exhibit “Does Your Sales Approach Make Sense?”).

Giving sellers are characterized by a “more is better” mentality. They generously share data, collateral, white

IDEA IN BRIEF

THE PROBLEM

A trove of easily accessible and reliable information has proved valuable to B2B purchasers, but it has complicated the buying process. Too much information exists for buyers to make sense of it on their own, leading to indecision.

THE CAUSE

When B2B buyers aren’t confident in their ability to make impactful purchase decisions, they delay them or make only incremental upgrades.

THE SOLUTION

The best sales reps emphasize simplicity over comprehensiveness. They employ a variation of the Socratic method, avoiding telling customers what to think and focusing instead on helping them create a framework within which to make their own decisions.



SALES



Sensemaking reps give customers just enough information and then help them meaningfully interpret and simplify that material.

papers, product specs, and more because they believe that providing information, especially in response to customer requests, moves a deal forward. It's a good-faith effort to advance buyers' learning, and it feels like the obvious thing to do. Giving reps often press the rest of the organization for additional information, as if the very act of providing it were a compelling demonstration of value.

A telling approach is most often embraced by highly knowledgeable reps. Backed by years of experience and deep subject expertise, telling reps rely on anecdote and opinion. They demand little from the rest of the organization; they've already memorized what they need or created a pitch deck around it.

Our survey of B2B customers revealed a close connection between sensemaking and positive outcomes. Some 80% of customers interacting with sensemaking reps completed high-quality, low-regret purchases. Only 50% of customers interacting with telling reps, and 30% of customers interacting with giving reps, did so.

Why do sensemaking reps do so well while others struggle? Two-thirds of buyers said they believe the claims of sensemaking reps, whereas only 28% believe those of telling reps and 13% believe those of giving reps. The reason for the latter's dismal showing is clear: When customers are struggling with too much high-quality information and looking for a way to move forward, having a rep place even more on the table, with little guidance on how it fits or why it matters, only makes things worse. It feels pushy and self-serving, and it increases customers' skepticism and decreases their confidence that they can take decisive action.

WHAT SENSEMAKING SELLERS DO DIFFERENTLY

We divide sensemaking behavior into three broad categories: connecting customers with carefully curated information; clarifying that information by explaining, simplifying, and deconflicting; and collaborating on customer learning through Socratic guidance.

Connecting customers with relevant resources. Sensemaking reps curate the information they share for utility and clarity, including only what will help customers advance with increasing confidence along their purchase journey. That information might either corroborate or undermine a

customer's earlier thinking, but in either case it is chosen and deployed with a view to purchase progress.

Sensemaking reps readily admit the limits of their knowledge. When skepticism of sellers can be so damaging, there's clear value in simply saying, "I don't know" rather than manufacturing a half-truth that can be easily fact-checked. And admitting one's limitations can forge a powerful connection with buyers, who probably don't know either. That moment of personal authenticity creates an opportunity for collaborative discovery and learning, which the sensemaking seller can leverage by offering select additional information. "Connecting" is as much about mindset as it is about behavior. It means wrapping reps' heads around the idea that they don't have to know everything; in fact, they shouldn't try to. Their role isn't to have the answers but to outline a practical path toward them.

Clarifying information. In many ways, a sensemaking rep's key to success is the ability to boost a customer's belief that the rep empathizes with the difficulty of making a complex purchase decision. That requires helping customers feel that they've asked the right questions, understood competing perspectives, and accounted for potential contingencies. Sensemaking sellers are particularly adept at clarifying complex problems, explaining technical information, and turning abstract concepts into understandable, shareable, and compelling insights. They give customers just enough information and then help them meaningfully interpret and simplify that material, creating a consistent, coherent, convincing narrative that bolsters customer confidence.

Collaborating on customer learning. A sensemaking rep ensures that the conclusions customers reach are their own. The goal is to Socratically guide buyers on a learning journey, not tell them what to do. Sensemaking reps often encourage customers to independently verify seller-provided information and give them an easy way to do so. They offer a framework for learning that makes customers feel in control; that confidence increases the chances that buyers will make a decision rather than delay or stand pat.

SENSEMAKING IN ACTION

Let's look at how two software companies have applied their unique sensemaking sales approaches.





SALES

Dealertrack, which sells dealer management software (DMS) to auto and equipment dealers, knew that clients fail to significantly upgrade their DMS systems for three reasons. First, dealerships seldom replace the systems, so learning about the various vendors, solutions, and features can take months. Second, they typically lack defined purchase processes, so a lengthy series of discussions, setbacks, new voices, new vendors, and new information often ensues. Third, their decision-making is rarely linear. Dealers might revisit decisions and take one step forward in the buying process only to then take two steps back. To better guide clients through their deliberations, Dealertrack reimagined its fundamental role in the discussion. It shifted from providing information to sensemaking. (Disclosure: Dealertrack's parent company, Cox Automotive, is a client of Gartner.)

The cloud-based disaster-recovery software company Expedient struggled with a different but equally challenging problem. It competes in a highly contested industry dominated by a small number of large competitors, including Amazon, Oracle, Microsoft, and IBM. It recognized the futility of trying to match their content creation, and its research revealed that in any event, most customers turn to their current vendors and consultants for information. Leadership decided that adding to the deluge of research material on cloud services would only exacerbate customers' information struggles. So it implemented a sensemaking approach to help clients understand third-party content during every stage of the buying process.

Dealertrack and Expedient understood that learners generally benefit from additional information only to a point (see "Death by Information Overload," HBR, September 2009). People reach a moment when they've hit their capacity for learning, after which each new insight, perspective, or data point makes it *harder* to make a choice. Good decision-making yields to bad, informed decisions give way to best guesses, and choices become guided by gut feelings.

Dealertrack began its sensemaking process by conducting detailed customer interviews to determine two critical pieces of information: What were the important milestones in customer decision-making on the path to a successful DMS purchase? And what were the indicators that customers had reached them? On the basis of its interview results, Dealertrack focused its new approach on helping customers reach

Does Your Sales Approach Make Sense?

Two surveys—one of 1,174 B2B buyers, the other of 1,010 B2B sellers—revealed three strategies for helping customers make purchase decisions. Each is effective to a degree, but sensemaking significantly increases the likelihood to buy.

GIVING	"I can get you more information on that."	Primary Strategies → Providing comprehensive information → Promptly responding to customer requests for information
TELLING	"Let me tell you what you need to know."	Primary Strategies → Sharing his or her own perspective with buyers → Basing information on extensive personal experience and knowledge
SENSEMAKING	"There is a lot of information. Let me help you make sense of it."	Primary Strategies → Guiding customers to evidence → Prioritizing simplicity over comprehensive detail

Source: 2019 Gartner Buyers Survey; 2015 Gartner Sales Complexity Assessment

four milestones: problem identification, solution exploration, requirement building, and supplier selection. It provided customized information about each stage of the process, including what customers should expect, what they should learn, when and from what sources they should learn, whom to involve, what to avoid, and what a confident attainment of each milestone would look like. It carefully monitored customer sentiment around the milestones, watching for progress and points of friction and tracking everything with its customer relationship management system. Sales teams directed customers to pieces of information to support them at each stage. The marketing team monitored where progress slowed and developed better collateral and content.

Expedient took a different approach. It created a seller training and certification program for all frontline reps and managers. Reps were asked to identify customers' most common sources of industry information, which allowed Expedient to design and deploy a highly targeted strategy based on customers' current information-consumption patterns. To obtain certification, reps had to demonstrate sensemaking skills during video-recorded trainings. Market



Sensemaking is designed to increase the likelihood that a customer won't settle for a smaller solution at a lower price—or worse, make no decision at all.

research helped Expedient identify the highest-priority questions customers were likely to ask. The company then developed an assessment tool giving buyers a practical means of answering those questions on their own. The tool also shows customers hidden costs and unforeseen savings they might fail to identify. It wasn't designed to provide them with Expedient's assessment of their business; instead, it gives them an easy, practical, and customized means of confidently conducting their own assessment. The framework lets customers quickly organize, analyze, and prioritize information. That benefits Expedient even when they decide not to make a purchase; the sooner Expedient can figure out which potential buyers are a poor fit for its solution, the sooner it can pursue better-qualified opportunities.

Although Dealertrack and Expedient are willing to guide prospects away from their own solutions in the interest of gaining trust, sensemaking is not an exercise in free consulting. It *feels* supplier-agnostic to customers. But sellers benefit financially from the technique in two highly complementary ways.

Sensemaking organizations focus on their strengths.

Customers know that the information a rep provides is skewed in the seller's favor; that's expected. The key is to ensure that customers perceive decisions, interpretations, and choices to be their own. Sensemaking organizations help customers appreciate their company's unique qualities. The criteria they define in an IT-maturity diagnostic, the kinds of companies they benchmark, the fields they include in a calculator: All are opportunities to influence customer thinking to their advantage. But there are caveats. Efforts to get customers to consider—much less favor—a set of strengths must be sufficiently subtle or convincing, or both, that they don't seem completely self-serving. Sensemaking sellers must provide credible, objective reasons why certain criteria might matter more, or why specific considerations might merit added attention, when those criteria or considerations clearly favor their own solution. As we've discussed, the likelihood of closing a deal drops precipitously the moment objectivity is lost and customer skepticism creeps in.

Sensemaking sellers increase the size of the pie.

Most sales leaders would agree that their single biggest competitor isn't a rival vendor; it's the status quo. And the biggest challenge suppliers of complex solutions face isn't

reluctance to make a purchase; it's reluctance to do more than take the smallest incremental actions or the safest steps. Sensemaking is designed to increase the likelihood that a customer won't settle for a smaller solution at a lower price—or worse, make no decision at all. It's tuned to address indecision and lack of confidence. Sensemaking earns customers' trust, which makes customers feel more confident and emboldens them to make higher-risk decisions, such as buying the bigger, more complex product.

At Dealertrack, sensemaking has dramatically decreased stalled deals. The sales teams report greater stakeholder alignment and less unexpected disagreement. Deals are completed faster, and feedback is overwhelmingly positive.

Expedient has achieved similar success. Buyers who take its assessment convert at a rate of 80%, whereas the rate among leads that forgo the assessment is just 30%. The firm attributes the higher conversion rate to the confidence clients feel throughout the decision-making process.

CUSTOMERS ARE MORE likely to make high-quality, low-regret purchases when they're sure they have asked the right questions, prioritized the correct information, and identified consistent patterns. But the process is inherently subjective. Which questions are the right ones? Which information matters most? What constitutes a pattern? There's no objective measure for any of these criteria, yet an abundance of information tells customers what to think. It's no wonder they have a hard time making sense of it all.

Complex B2B buying decisions are consequently driven less by what customers know than by how confident they feel in their ability to make good decisions. A lack of self-confidence impedes big deals more often than a lack of confidence in a particular vendor does, so sales professionals who can boost a customer's self-confidence are immensely valuable. The most successful sellers—the sensemaking sellers—empower customers to grasp overwhelming quantities of information and take bold, decisive action with assurance and peace of mind. ☺

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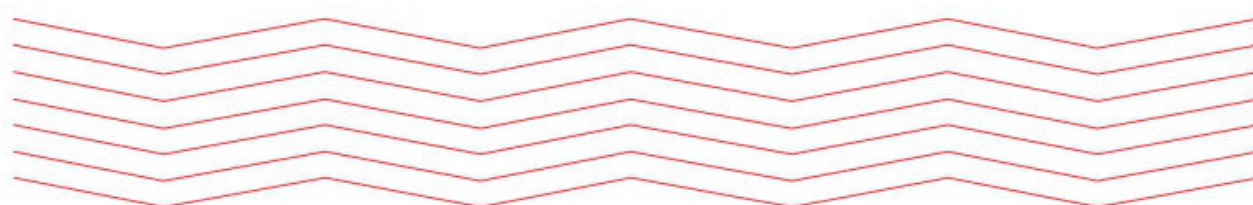
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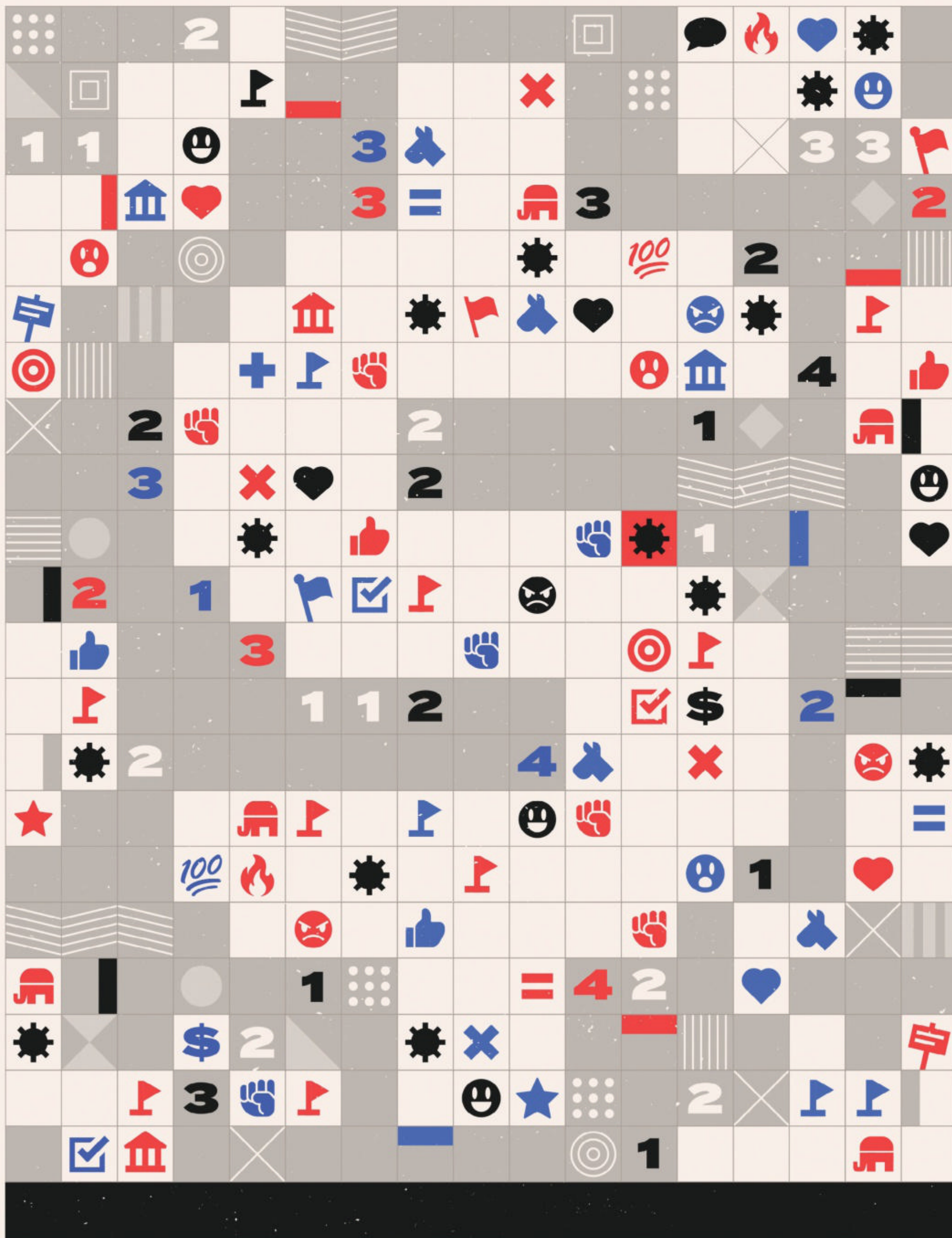
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Lipton, Rosen
& Katz*

Corporate Political Spending Is Bad Business

How to minimize the
risks and focus on what
counts







POLITICS

IDEA IN BRIEF

THE SITUATION

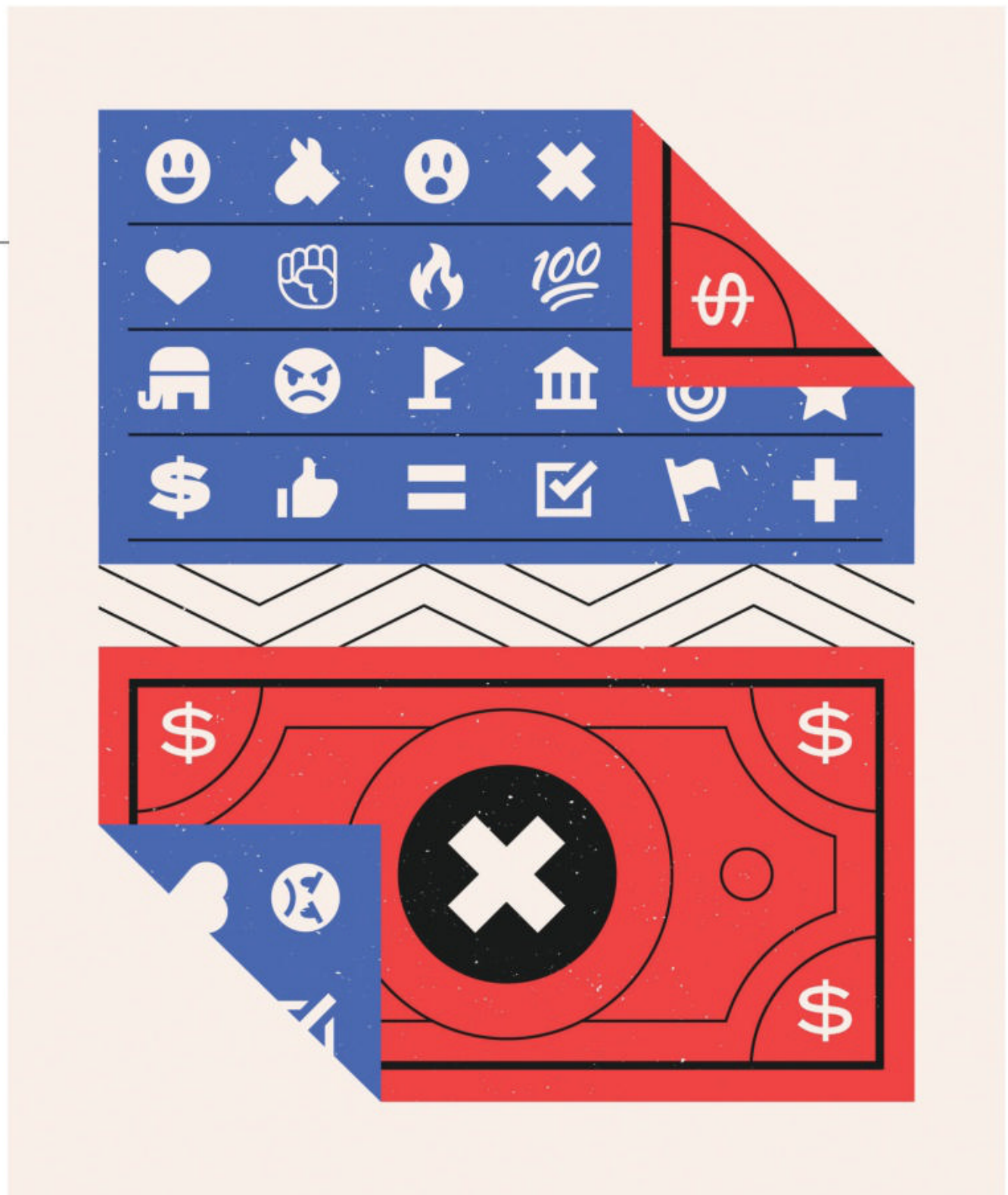
Since Citizens United, companies have often donated to political candidates they hope will do their industry's bidding or support a specific cause.

THE PROBLEM

If firms publicly advocate a contrary stance, they risk being seen as hypocritical and incurring a backlash from shareholders, employees, or other stakeholders.

THE SOLUTION

Ideally, companies should stop making political contributions altogether. Failing that, they should commit to giving only through a PAC that raises voluntary money from employees and other stakeholders—or at least contribute only according to a political spending plan approved by shareholders.



On April 14, 2021, in response to a restrictive Republican-sponsored voting law in Georgia, the CEO of Google joined 200 other corporate CEOs in publishing an open letter in the *New York Times* and the *Washington Post* stating opposition to “any discriminatory legislation” that would make it more difficult for Americans to vote. But there was a catch: Google had quietly funded a “policy working group” on “election integrity” with the Republican State Leadership Committee, an organization that supported the Georgia legislation and similar legislation in other states.



Companies now donate to help elect candidates they hope will do their industry's bidding or support a specific cause, even as they publicly advocate for the opposite stance.

During the RSLC working group meeting that Google's state policy manager attended, slides were shown calling "election reform" "the only line of defense of the Republican Party." Months earlier, Google had also donated \$35,000 to the RSLC from its corporate treasury.

Such inconsistency—what some have called hypocrisy—has become endemic in the corporate world as a direct consequence of the U.S. Supreme Court's 2010 decision in *Citizens United v. Federal Election Commission*. That ruling freed corporations to fund political candidates and dark-money campaign committees (organizations that do not have to disclose their donors).

As a result, companies now donate to help elect candidates they hope will do their industry's bidding or support a specific cause, even as they publicly advocate for the opposite stance. A 2020 report by the Center for Political Accountability offers abundant examples: corporations that have publicly demanded racial equality while making contributions to groups and candidates that promote racial gerrymandering; corporations that purport to be concerned about climate change while donating to groups that challenge the EPA's clean-power plan; and corporations that claim to protect LGBTQ rights while funding groups that helped elect supporters of the 2016 "bathroom bill," which abolished certain antidiscrimination protections for sexual orientation.

Deeper issues lurk beyond hypocrisy. Because political donations are controlled by managers, and because no corporate stakeholders, including shareholders, base their relationship with a company on the expectation that it will use its entrusted capital for political purposes, corporate political spending cannot reflect the diverse preferences and views of those stakeholders. Even the classic justification that corporate donations maximize shareholder wealth is on shaky ground: Emerging evidence suggests that they can destroy value by suppressing innovation and distracting managers from more-pressing tasks.

Perhaps most important, political donations greatly heighten corporate risk. In an era when customers, employees, and investors are increasingly scrutinizing companies' records on employee, environmental, social, and governance issues (we prefer the term EESG over the more common ESG, to appropriately emphasize the importance of employees),

the threat of blowback from political contributions has become too great for executives to ignore. In the wake of the 2021 riot at the U.S. Capitol, for instance, public scrutiny of large corporate contributions to politicians who refused to certify the results of the 2020 presidential election led many companies to say that they would pause or even suspend political donations—some for a predefined period, others indefinitely.

But the risks and costs imposed by political contributions cannot be rationally or effectively addressed by ad hoc moratoriums. Instead, corporations need to implement systematic and principled reforms to avoid future gaffes and controversies, reduce their involvement in time-wasting and costly political spending, and better align their lobbying and donations with their stated values. In this article we explain the forces driving companies to make risky, potentially hypocritical donations. We argue that these donations are likely to destroy value as concern about such spending and demands for transparency rise. And we propose concrete action to enable corporate leaders to avoid this trap while freeing up attention and resources to focus on running their companies well.

THE LEGITIMACY PROBLEM

Before *Citizens United*, the law reflected a general societal consensus that keeping corporate money out of elections was a good thing. Direct contributions to candidates and independent expenditures (such as advertising) to promote the election or defeat of candidates were prohibited. Companies that wished to participate in political activity could do so through a corporate political action committee (PAC) funded by voluntary contributions from employees and shareholders—but not with corporate treasury funds. That constraint had strong bipartisan support, as exemplified by its inclusion in the 2002 McCain-Feingold Act on campaign finance reform.

Citizens United upset that settled approach. It gave corporate managers the freedom to spend unlimited sums of shareholder money to influence political activity. With that decision, the Supreme Court exposed corporations and our political process to a new and unhealthy dynamic of interactive influence seeking. The change in law not only enabled



Shareholders, employees, creditors, and society as a whole remain largely in the dark about corporate political spending.

corporations to act more freely in the political process but also allowed politicians and interest groups to demand that corporations give them money. Accordingly, it unleashed a host of problems for corporate managers, their shareholders, and other stakeholders.

Under the traditional division of power in U.S. corporations, managers decide how to allocate corporate assets, and shareholders are entitled to a say on those decisions only if they involve fundamental transactions, such as major acquisitions or a substantial sale of the corporation's assets. Thus, even as corporate political spending has soared since *Citizens United*, shareholders have had no real say in the matter. Corporate leaders have not chosen to seek their approval for political donations, and most have not even disclosed their contributions—despite the fact that shareholders are paying for them with their entrusted capital. Shareholders, employees, creditors, and society as a whole remain largely in the dark about this spending.

A recent study by Public Citizen, a nonprofit consumer advocacy group, reveals large increases in corporate spending on elections since 2010, primarily via contributions to PACs. Spending on midterm elections rose in particular, more than doubling from 2010 to 2014, and then doubled again from 2014 to 2018. Not only that, but corporations are the predominant contributors to the huge growth in so-called 527 organizations since 2010. These tax-exempt organizations, named for the section of the U.S. Internal Revenue Code that allowed their creation, pool money from various sources and use it to advance broad political agendas under less scrutiny than PACs receive.

Even when it comes to traditional business decisions, academic research has focused for years on the reality that management does not always use its control of a company's money to benefit the company and its shareholders, whether out of myopia or self-interest. In the fields of corporate finance and governance, this is referred to as an agency problem. Academics and policy makers have generally advised that shareholders be given greater influence and control over corporations to address this misalignment of interests. A leading proponent of that position is Lucian Bebchuk, a professor at Harvard Law School, who has argued that shareholders should be able to amend the corporate charter (which determines the company's most important

governance provisions) and have greater influence over other corporate decisions.

Of course, the misalignment is especially pronounced when the decision is about which politicians or parties should benefit from corporate largesse—an issue on which shareholders have no common interest. Investing in a company—or, as most Americans do, in an index or other fund that holds a broad swath of companies—is not a political statement. For generations the scholarly consensus has been that the only thing uniting company investors is their desire for a solid return. They have diverse political views and—as we will highlight—no interest in electing candidates just because they support one company's preferred regulatory policies. The ability of corporate managers, who understandably have their own political views, to make contributions in a way that is faithful to their investors' diverse interests and opinions is rightly suspect, and for that reason demand is growing for shareholders to be given more information about and more say over corporate political spending.

The legitimacy problem this creates is easy to understand. Corporate managers are more likely to identify as Republican than are members of the general public, which is closely divided among Democrats, Republicans, and independents. CEOs are also much wealthier than most other citizens, and wealthy people are more likely to vote Republican. Obviously, if executives direct political contributions according to their personal preferences, they will donate to candidates and committees with views contrary to those of many of their shareholders, employees, and customers.

In 2019 researchers at Harvard Law School and Tel Aviv University ran the names of all individuals who had been CEOs of companies in the S&P 1500 from 2000 to 2017 through federal campaign-finance databases, which record contributions to party committees as well as to congressional and presidential candidates. They found that nearly 60% of CEOs donated to Republicans. The same Public Citizen study just mentioned found that from 2010, when the *Citizens United* decision was issued, to 2020, corporations gave \$282 million to Republican candidates, versus \$38 million to Democratic candidates. This is far out of balance with the American public, which, if anything, tilts slightly Democratic and is composed of more independents than Republicans or Democrats, according to Gallup. This, we

What About Lobbying?

Of course, some of the concerns about corporate political spending extend to lobbying as well. If, for example, a corporation lobbies against legislation to address climate change while claiming to be supporting action to address that urgent problem, its leaders will face similar scrutiny. It is understandable and expected that corporations will air their views on public policy issues that directly affect their ability to conduct their business. That understanding should put to rest any fears that if corporations stop giving to politicians, their interests will be ignored by the political process. By any responsible measure,

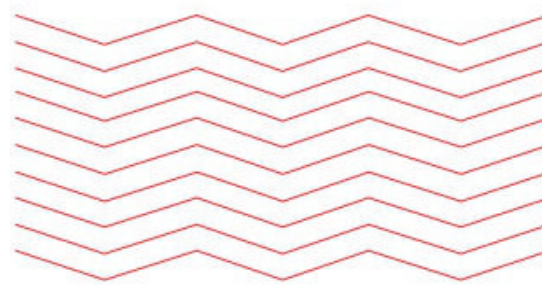
corporate lobbying expenditures swamp those made by organizations that represent workers, consumers, the environment, and other nonbusiness interests.

As important, when corporations are large employers that act as good citizens in the communities in which they have material operations, they need not buy support from their congressional delegation or state and local legislators, who have a natural incentive to make sure that businesses of that kind remain in their districts. And as long as corporations take pains to ensure that their lobbying messages are consistent with their EESG policies, the chances of being perceived as hypocritical are minimal.

stress, is only what we know. It seems likely that corporate dark-money contributions not now subject to disclosure are even more out of balance.

A CEO may argue that he or she supports only politicians and legislation that hew to the company's preferred regulatory line, and that it just so happens that those politicians are more likely to be Republican. But often politicians whose views align with a particular corporate interest also take positions that are antithetical to a company's stated EESG values, which underpin its plan for long-term value creation. And even if a politician's views aligned perfectly with all the interests of the corporation, shareholders might prefer not to have its treasury dollars spent in this way.

One important reason is that most investors hold a broad portfolio of stocks reflecting the whole economy. They don't want their dollars to be spent on political rent-seeking by a specific company, which helps one company but causes externalities for other companies, taxpayers, and consumers like themselves, and therefore is likely to slow real overall economic and portfolio growth. It is more likely to entail at best a transfer of value from one company to another and at worst an increase in externalities borne by society in general. For example, a diversified investor does not benefit



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when a government contractor spends invested dollars to secure a contract that another (perhaps more qualified) company in the investor's portfolio might otherwise have gotten. Nor does that investor benefit when companies lobby to reduce regulation that shifts costs from investors to taxpayers in the case of, say, environmental destruction.

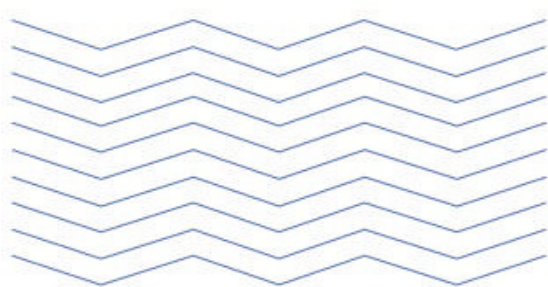
Beyond the financial risk, diversified investors are human beings who pay taxes, breathe air, consume products, invest in the whole economy, and owe much of their wealth to their access to a job. Thus bipartisan support from Americans who oppose political spending by corporations is long-standing. If people want to give to politicians, they want to use their own money, not have corporations do it for them. A telling proof of this point is that mutual funds, which make up the majority of a typical company's shareholders, can't legitimately give their investors' money to corporate PACs, which allow companies to fundraise from employees and shareholders to support the company's political activity. And individual investors do not give to corporate PACS either, because they prefer to direct their contributions to the candidates and causes that best align with their overall values. Indeed, corporate leaders don't even seek contributions from shareholders, knowing they would be met with disbelief and rejection.

Furthermore, research suggests that companies that spend heavily on politics perform more poorly than others. For example, a study of corporate political activity in the form of lobbying and PAC spending by S&P 500 companies from 1998 to 2004 (conducted by John Coates, a Harvard professor who recently served as general counsel of the SEC) found that it was strongly and negatively related to company value. That result may resonate with some business executives: When companies feel they have to compete on regulatory shortcuts rather than on productivity and innovation, they may be poorly positioned to produce sustainable profits by selling quality goods and services and evolving to meet new consumer demands.

As further evidence of their growing dissatisfaction with the post-*Citizens United* status quo, investors are submitting and supporting proposals demanding greater disclosure of political spending. In 2019 shareholders initiated 33 such proposals, a dramatic increase from the previous year, and those proposals secured support averaging 36% of the vote. In 2020, support for such proposals was even greater.



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THE HYPOCRISY TRAP

Investors and employees are not alone in opposing this state of affairs. Our conversations with corporate leaders reveal that many of them are tiring of the current system because it distracts them and shifts resources away from other, value-creating activities. A 2013 report from the Committee for Economic Development of the Conference Board found that 75% of surveyed business executives believed that “the U.S. campaign finance system is pay-to-play,” and 87% said the system “needs major reforms or a complete overhaul.”

Indeed, companies’ “freedom” to donate to politicians after *Citizens United* ultimately led to a trap for corporate management. Under prior law, when corporations could not say yes to solicitations for political donations, they were not even asked. They could give through a PAC only, and that arrangement put limits on fundraising and spending. Instead of being forced to support positions and candidates that their investors, customers, and employees disfavored, executives could focus on their core job of running their businesses.

After *Citizens United*, politicians, political party committees, and industry groups knew that corporations could spend as much as they wished. That put executives under pressure to give. Now that political donations are unrestricted, it’s hard to say no. And once an executive says yes to one, pressure comes to say yes to all. How can you give to just the Republican members of the Senate Finance Committee? Or just the Democratic members of the House Committee on Energy and Commerce? Furthermore, managers may rationally fear that by failing to give when all other companies are giving, they will lose the ability to influence regulation. Thus corporate political spending has become a dangerous and unprincipled game, leading many business leaders to long for the old rules.

These conditions are exacerbated by increased concern over EESG and corporate social responsibility. Corporations are facing pressure from employees, customers, society, and even investors to be more aware of the effects of their conduct. Executives are responding by speaking out on climate change, racial and gender diversity, employee rights, and even hot-button issues such as reparations and a woman’s right to choose. And yet pressure persists to donate to candidates and legislators, particularly those who favor the

company’s preferred regulatory policies, putting the company at an almost unavoidable risk of ensnaring itself in the hypocrisy trap.

It is unsurprising that companies are now being called out for talking in one way and giving money in another. Consider the scandal that embroiled Target when it contributed \$150,000 to a nonprofit organization in the company’s home state of Minnesota that supported a Republican candidate’s campaign for governor in 2010. Target claimed that the donation was intended to foster a better business climate in the state, but critics quickly pointed out that the candidate opposed LGBTQ rights and had made homophobic comments in the past. Particularly damning for Target was the fact that it has worked hard to portray itself as committed to diversity, such as by sponsoring the Twin Cities Pride Festival. This perceived hypocrisy drew a strong backlash from customers, who boycotted the company’s stores, and from shareholders, who brought forth a proposal asking Target to overhaul its political-donation policies.

THE SOLUTIONS

Substantial negative publicity about donations in conflict with companies’ stated EESG values has moved some businesses to consider reforming their political spending practices. But progress has been slow. To its credit, Target established a board-level committee to oversee political donations in response to complaints about its involvement in Minnesota’s gubernatorial race. Recently other companies have gone even further, taking the brave step of unilateral political demobilization. For example, after the January 6 storming of the Capitol, Charles Schwab shut down its PAC “in light of a divided political climate and an increase in attacks on those participating in the political process.” Likewise, BlackRock suspended political contributions, stating that it “will conduct a thorough review of the events and evaluate how we will focus our political activity going forward.”

We applaud these approaches. There is no such thing as a legitimate corporate political donation program, nor can one fully safeguard the company from the risk of contributions to candidates and interest groups with views contrary to the company’s stated values. As a result, the best business practice is for CEOs to pledge that the corporation will make *no* donations with treasury funds and to limit involvement in the political process to lobbying or speaking up on issues that the board has deemed consistent with the company’s values.

But such pledges may not spread, and even if they do, they may not last. There is a first-mover disadvantage to taking a stand to limit corporate donations when others—especially competitors—are still making them. Regulatory



If a company lacks the will to ban political contributions entirely, it should commit to giving only through a PAC that raises voluntary money from employees and shareholders.

limits would help; but thanks to *Citizens United* and other judicial decisions, these donations cannot easily be restricted by legislative action. That said, companies that take the lead may attract positive responses from major investors, key stakeholders, and consumers, and find that countervailing first-mover advantages justify being willing to lead.

If a company lacks the will to ban political contributions entirely, it should commit to giving only through a PAC that raises voluntary money from employees and shareholders. Even then, the company should commit to having the PAC give only to candidates and committees whose full range of views align with the company's stated purpose and values. That means devoting management and independent director time to researching the records and views of potential recipients and watching how those views evolve. As important, the company should ensure that the PAC does not give to political party committees of any kind or to industry political committees that don't fully disclose their contributions and expenditures and don't restrict their contributions to identified candidates and causes that the company can screen for consistency with its stated purpose and values.

Some companies may be reluctant to take this approach and may wish to continue making treasury expenditures. For them, additional action must be taken. They should commit to making contributions only under a political spending plan approved by a vote of the shareholders (at the company's annual meeting and, ideally, by a supermajority)—an approach endorsed by the late investment fund legend Jack Bogle and proposed in several bills pending in Congress. That would enhance the legitimacy of corporate spending, because management would need broad investor approval for any spending policy. The reality, of course, is that shareholders may vote against such plans. But if they do, can management possibly claim that it is faithfully discharging its fiduciary duties?

Under this approach, directors would have a critical role to play in implementation. The board should charge an existing committee of independent directors—the same committee that is charged with legal compliance and EESG policy oversight—to develop and approve a company policy governing political expenditures and to supervise its implementation as well as its risk. The committee should not only ensure shareholder approval but also assess how employees

and customers are likely to react to the policy. Once a policy has been instituted, the committee should review and approve any political expenditures for consistency with the plan and with the company's EESG values and policies, with input from key managers. Finally, it should ensure that all contributions made to candidates, political parties, political organizations, trade associations, or other tax-exempt organizations that engage in political activity, whether by the company directly or by its PAC, are publicly disclosed.

Because some companies will most likely be unwilling to reform their political spending, diversified investors should continue to demand disclosure and push for the limits we describe here, via shareholder proposals and engagement, across all the companies in their portfolios. Institutional shareholders in particular should require that any political spending be done under a plan adopted by a supermajority of shareholders.

WE CAN FIND no sound business justification for corporate political giving as it is practiced today. Putting aside the larger problems for society and for the basic fairness of our democratic process, pouring corporate money into politics solely for company-specific profit seeking completely lacks legitimacy. Investors don't benefit from this state of affairs, nor do corporate executives, who are pressured into giving in ways that undermine their business focus and create substantial risk.

We have outlined various steps that companies can take to improve the legitimacy of their corporate giving, but the best remedy would be to stop it altogether. That would free management to focus on running quality businesses that compete on innovation and productivity and would avoid illegitimate, time-consuming, and reputation-harming political activity. Public respect for business leaders would grow—and so would trust in the fairness of our political system. 

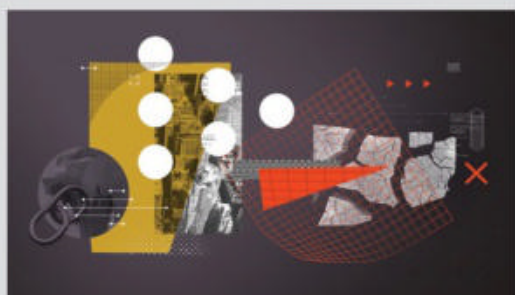
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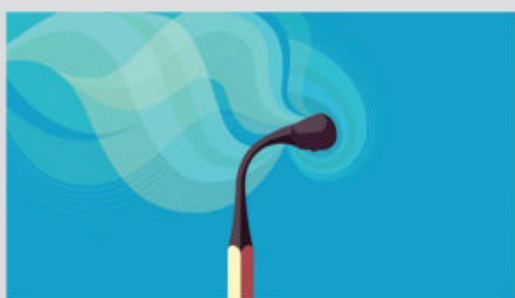
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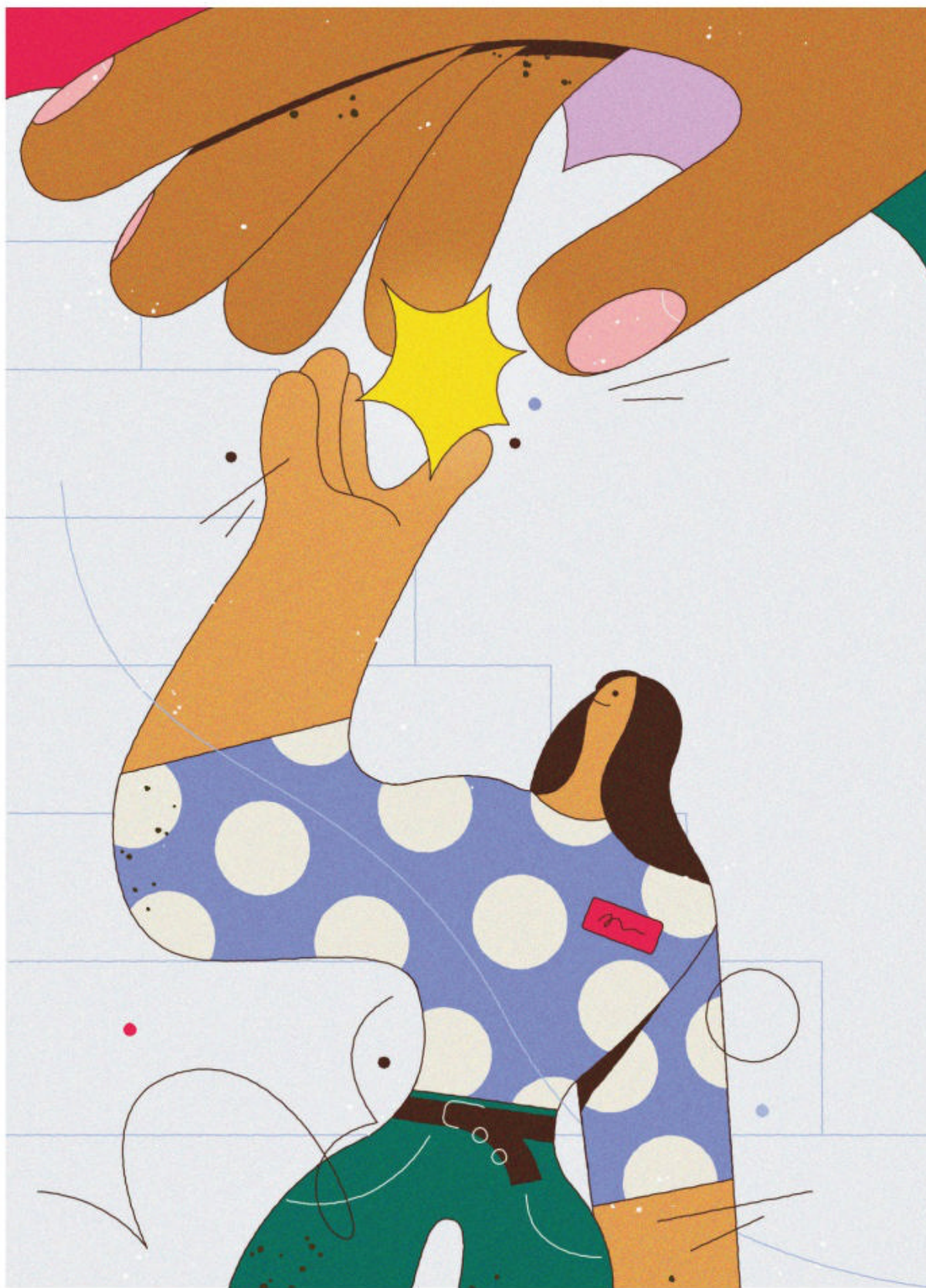
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YOU HAVE A

great idea—a product tweak that will save your company money, a process change to increase your team’s productivity, or a plan for heading off a looming crisis. There’s just one snag: You’re not sure how to approach your boss about it, or worse, you’ve tried and failed to get the attention of higher-ups.

Despite abundant research on the value of bottom-up innovation and problem-solving, many workers still feel stifled in giving their bosses feedback or making suggestions. One survey of U.S. employees found that a full 70% weren’t comfortable raising an issue with their boss even when it was important, and a landmark 2003 study found that 85% of employees withheld their ideas because they were afraid to speak up.

Additional research shows that even when employees do speak up,

MANAGING YOURSELF

How to Sell Your Ideas up the Chain of Command

Start by understanding your manager.

by Ethan Burris



Experience

their suggestions usually don't lead to change. For example, an Accenture study showed that nearly three-fourths of ideas submitted through corporate online suggestion tools languished and were never implemented. Another study of a hospital found that of 200 ideas shared by employees, most were initially rejected and fewer than a quarter were ever implemented.

For the past two decades, I've studied how employees offer solicited and unsolicited recommendations and how managers respond. Obviously, there are many reasons why ideas—including those from senior leaders—fail to make it to implementation. But too often good ideas are ignored or rejected. I've found that two factors are key to a successful pitch: having the confidence to make your suggestion and knowing how to frame it to get the best reception from your boss. Some managers will be more unapproachable and unresponsive than others, but research shows that the majority are more open to ideas and suggestions than you might imagine—provided they are approached effectively.

In the studies my colleagues and I have conducted across health care, restaurant, oil and gas, technology, and financial service organizations, we've uncovered several strategies that you can use to make yourself heard by managers, thereby enhancing both your company's performance and your own experience at work. We've found that the key to selling your idea up the chain of command is to understand the psychology of higher-ups—to get inside their heads. Doing so can help you recognize what tips the scales in your favor—and identify the (rare) instances

when it's best to try to go around or above them.

UNDERSTAND YOUR MANAGER'S INSECURITIES

When deciding whether to speak up about an idea or a problem at work, most employees think first about their own standing. Do I want to risk the potential embarrassment of being rejected by the boss? Will my manager see me as a complainer, a worrywart, or a pot-stirrer? Few people, however, focus on their manager's ego. How will this suggestion make my boss feel?

Being the boss comes with heavy expectations. Leaders are supposed to be well-informed and know what to do all or most of the time. That can make them feel insecure and leave them less open to subordinates' ideas. Consider

the survey we did of highly educated managers—chemists, geologists, geophysicists, petroleum and environmental engineers, drillers, and executive staff—at a multinational oil and gas company. We found that despite being exceedingly accomplished, many lacked confidence in their ability to lead. In another study, we found that with each one-point decrease in confidence on a five-point scale, managers were 35% less likely to solicit advice from their employees. And a follow-up study of more than 130 managers across industries showed that insecure managers gave workers who spoke up evaluations that were 21% more negative—and implemented their ideas 14% less frequently—than managers who felt more comfortable in their roles did.

Of course, some leaders are able to absorb feedback and ideas without feeling criticized or threatened. But even in those cases, there is very little downside to protecting their egos and neutralizing their insecurities. And it's possible to do so without feeling manipulative or sycophantic or exerting a lot of effort.

Ideally, when you propose an idea to higher-ups, you'll have already laid





When selling an idea, people often frame it by combining two messages: the benefits of doing something new and the risk of inaction. This is a mistake.

the groundwork by building trust and goodwill. Giving your manager positive feedback and expressing gratitude can help in this regard, provided the sentiments are genuine and delivered long before your pitch. It can be something as simple as, “I really enjoyed that presentation” or “Thanks for your support in the meeting today.”

As research by Adam Grant, Sharon Parker, and Catherine Collins has shown, managers pay attention to whether their employees tend to help themselves or help others. By routinely supporting your peers, you send signals that your suggestions are designed to improve the organization as a whole—and your manager’s standing. Indeed, explicitly conveying the benevolence of your motives can be helpful when making a suggestion to your boss, according to research led by Harvard Business School’s Leslie John. Especially when you’re giving negative feedback, prefacing your comments with a simple phrase such as “I really want the best for you” can help you avoid the likability penalty often paid by messengers of bad news.

When possible, approach your manager in private rather than publicly. A study by Sofya Isaakyan of the Rotterdam School of Management and colleagues showed that managers felt 30% less threatened when employees spoke to them one-on-one than when the suggestions were made in front of other employees.

Finally, try to frame your suggestions in a way that links them to the company’s stated goals. You might reference your boss’s previous communications: for example, “You’ve spoken before about your focus on intuitive

design. Here’s my idea for improving the user-friendliness of X product” or “I was thinking back to that email you sent about the importance of diversity, equity, and inclusion and wondering if we could make more progress by shifting our recruitment efforts from Y to Z.”

AVOID MIXED MESSAGES

When selling an idea, people often frame it by combining two messages: the benefits of doing something new and the risk of inaction. This is a mistake. Across five studies with executives from dozens of industries, my colleagues and I learned that managers are more likely to endorse messages that focus on either an opportunity or a threat; a combination of the two garners the least support.

In one of the studies, we analyzed more than 850 ideas submitted by 350 employees in a hospital system in the Midwest. They included suggestions about how to improve staff satisfaction, quality of care, patient satisfaction, and patient safety. We found that when proposals referenced both an opportunity and a threat, managers had to exert more effort to understand the nature and severity of the problem, the solution, and why the proposal was better than the status quo. The increased cognitive work brought additional scrutiny and colored how managers evaluated those ideas, often leading to their rejection. On the flip side, proposals that used one frame were more likely to be endorsed.

Which frame should you use? Our research revealed that employees should try to discern whether the managers they’re pitching to have a “promotion

focus” (that is, they focus on aspirations, ideals, the future, and playing to win) or a “prevention focus” (they’re preoccupied with staying vigilant, managing downsides, and playing not to lose) and then frame proposals accordingly.

A promotion-focused manager will want to know that an idea presents a new and exciting opportunity with tremendous upside. A prevention-focused manager will need to know how the suggestion will help the team avoid a problem or loss. Our research across several studies involving more than 800 frontline managers shows that tailoring the message to a manager’s personality can increase the likelihood that an idea will be endorsed by 15% to 18%.

There is no surefire way to diagnose your manager’s focus, but most people have tells. Is your boss concerned with obeying rules, following standard operating procedures, and upholding company policy? Very careful in outlining and executing on plans? Meticulous with the details of work and not messing anything up? If so, he probably has a prevention focus. Or does your manager like to start projects but doesn’t necessarily finish them all? Does she talk often about what the future holds? Prefer that others worry about the details of projects? Let little mistakes slide? If so, she most likely has a promotion focus.

MAKE IMPLEMENTATION EASY

Even when managers see the merit in an idea, there’s no guarantee they’ll back it amid myriad challenges and competing priorities. So it’s helpful to anticipate potential obstacles and explain how they might be overcome. In studies of



Employees who talk about company values when advocating for an idea are 24% more successful than those who don't.

a large hospital ER, a commercial real estate firm, and a defense contracting company, we found that managers typically evaluated an employee-generated idea by considering three questions: What financial and human resources will be required to implement it? How difficult will it be to enlist the help of others? Is it worth devoting time, energy, and political capital to? You'll want to address all three areas of concern in your pitch.

Consider a cautionary tale of a physician who suggested that ER patient flow could be managed more effectively by using additional nurses to triage patients. While the benefits would be substantial (for example, patients would receive critical care more quickly), the costs would most likely be steep: The proposal could require additional headcount, present scheduling challenges, and cause shortages of skilled staff in other areas of the hospital, such as the ICU and operating rooms. The physician hadn't thought enough about those hurdles before speaking to his manager, and so the idea was quickly shot down. A nurse we talked to shared a similar story. She proposed a better system for dealing with psychiatric and intoxicated patients who were overburdening her ER, but because the plan required coordination with various external groups—police, social services, policy makers, and others, each of which had different contacts within the hospital—her boss couldn't see a way to make it happen. If she had thought through how those relationships might be managed, her proposal would probably have gotten more traction.

In contrast, another physician who kept management concerns in mind

in presenting a potential solution to a problem was more successful. Because his hospital was the only Level 1 trauma center in the region, it attracted a lot of distracting media attention, from reporters covering sensational injuries to photographers capturing local celebrities getting treatment. Managers, nurses, and doctors had to spend valuable time away from their health care duties dealing with the news outlets. Instead of suggesting that the hospital hire additional public relations staff or create a costly and complicated process for handling the media, the doctor made one simple suggestion: erect a privacy barrier at the ambulance entrance, preventing the media from seeing arriving patients. This cost a few thousand dollars, required zero staff time, and saved the hospital a lot of headaches.

So before you approach higher-ups, give some thought to the potential challenges to execution. You might end up scrapping your idea—but generally, thinking about obstacles will strengthen your case. In making your pitch, describe how budgets and people could be redeployed to your idea without putting undue stress on other projects or parts of the business. Discuss which allies you'd need to enlist, and volunteer to help bring them on board. And don't forget to highlight how your idea aligns with the organization's values and strategy—and why supporting it is worthwhile for your manager.

For example, an employee trying to persuade the boss to let the team continue to work remotely postpandemic might focus on the economic advantages (such as real estate cost savings) if she knows her company is particularly

focused on running a tight P&L. Or if the organization and its leaders tout their commitment to staff wellness and work/life balance and reward bosses who drive engagement by promoting such efforts, she might emphasize the benefits of eliminating workers' long commutes. By tapping into the key values of the company—which are often reflected in the specific measures on which your manager is evaluated—you can better frame your ideas to make them seem more worthy of action. Indeed, a study led by David Mayer showed that in values-driven organizations, employees who talked about company values when advocating for an idea were 24% more successful than those who didn't.

LEVERAGE COLLEAGUES

Employees often fail to seek guidance or support from coworkers before offering feedback and suggestions. In one study I conducted, nearly 60% of people talked directly to their managers before running ideas by colleagues to see if they had merit. This is striking, given that the first question managers ask themselves is often whether the issue is a big deal affecting many stakeholders—or the employee is being overly enthusiastic or a "squeaky wheel."

Many voices are obviously more persuasive than just one, and allies give you credibility. Before approaching your boss, share your thoughts with your coworkers, take counsel on how to improve your pitch, and ask if you can mention their support or if they'd be willing to join you in presenting the idea. Across several studies, employees who amplified the voices of others in



their pitches were 15% to 20% more influential than those who spoke only on their own behalf.

You might even consider asking a well-positioned coworker to present your idea for you. A colleague who has more domain expertise or a better relationship with your boss might be more persuasive than you would be. Even better if you can choose someone who won't directly benefit from the change; such a person's arguments are likely to be seen as more legitimate. After all, your colleague is sticking his or her neck out for you. In a forthcoming study, my coauthors and I found that people who spoke up on behalf of others were 57% more influential than those who spoke up for themselves.

Joining forces with colleagues has yet another benefit—it helps diffuse any knee-jerk frustration that the manager might take out on the person making the suggestion. Research by Leslie John has found that people are prone to disparaging those who tell them things they don't want to hear—that is, they shoot the messenger. There's safety in numbers, so enlist some allies.

PITCH TO THE RIGHT PERSON

Putting yourself in your manager's shoes will also make you more likely to identify the instances when he or she *can't* help. It is pointless to continually raise issues with a boss who lacks the power or authority to address them. For example, one restaurant employee spoke to his shift manager about the lower wages earned by people who'd been at the company for years compared with those earned by much-less-experienced workers. He quickly realized that his boss had no control over compensation policy; corporate HR did, and by bringing the matter up to the wrong person, he was more likely to cause frustration than inspire positive change.

In such cases, consider what's in your managers' purview and whether other managers would be better targets for your suggestions. Who has the decision rights? Is it human resources? Facilities? Your manager's manager? If it's unclear who the right person is, you might try using formal grievance systems or digital suggestion boxes to help you get your ideas out there.



Experience

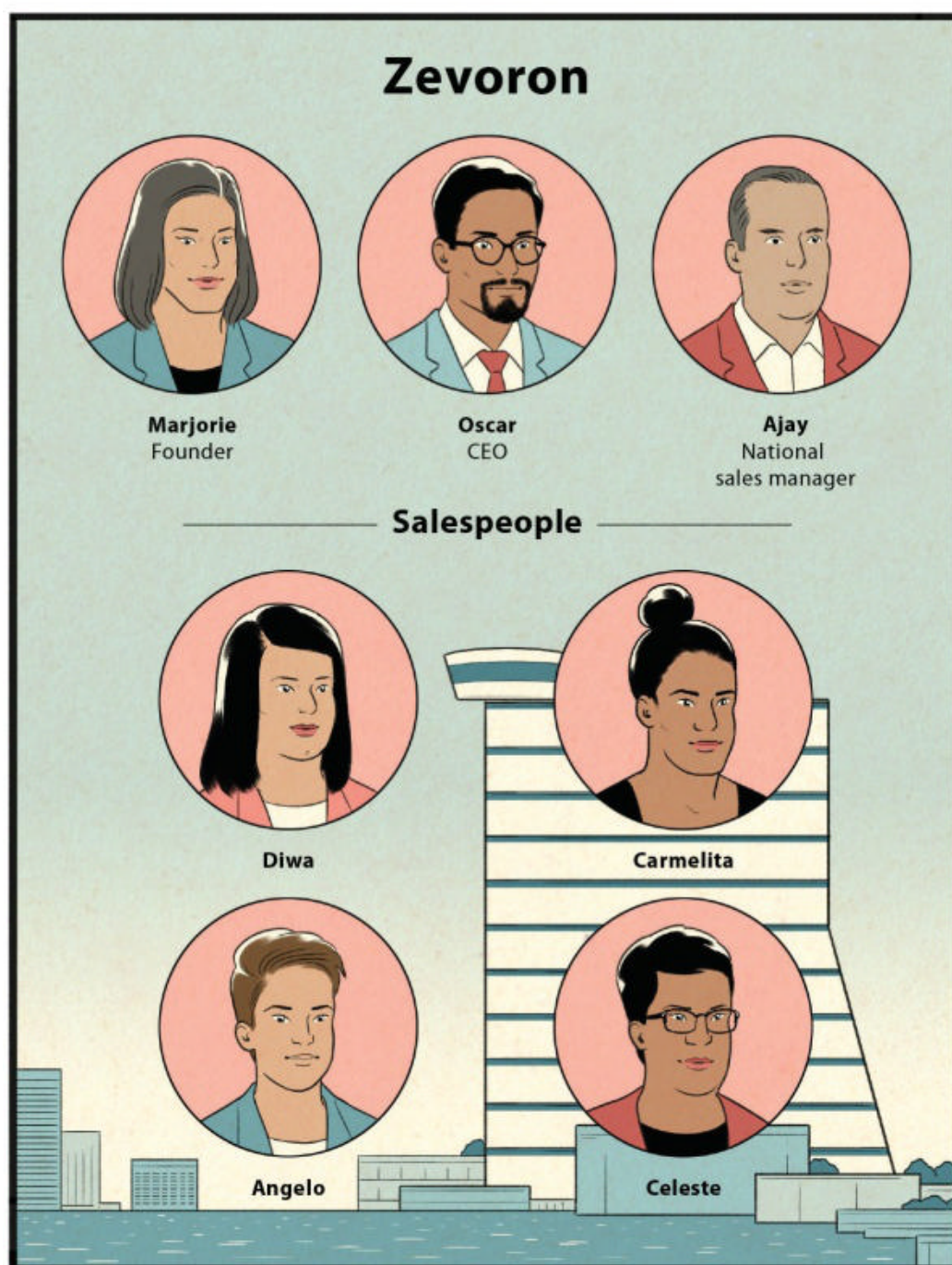
To be clear, I'm not recommending that you simply go around your boss when you think he or she can't or won't take action. This is ill-advised in most cases—especially in highly political, top-down organizations or if your manager is particularly sensitive. A much better approach is to enlist your boss as an ally in selling your idea to the right department or up the chain of command. Approach your manager as a collaborator and coconspirator, and ask for help in crafting your suggestion in a way that will resonate with more-senior executives.

In spreading the word, try to find opportunities for informal conversations with higher-ups. As in-office activity resumes, seek them out in the cafeteria, on the elevator, at the holiday party. Bosses who might balk at an employee's scheduling a meeting to discuss an issue are likely to find impromptu chats less intimidating or even noteworthy.

DESPITE THE CLEAR benefits, innovation rarely bubbles up from below at most organizations. However, blame for those missed opportunities doesn't always lie with management. To sell your ideas up the chain of command, think about the psychology behind managers' resistance and reframe your proposals in a way that makes you a more persuasive advocate for change. 

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 **ETHAN BURRIS** holds the Neissa Endowed Professorship in Business and is the director of the Center for Leadership and Ethics at the McCombs School of Business at the University of Texas at Austin.



Marjorie receives an award for Zevoron's support of the LGBTQ+ community through its employment of an all-transgender sales force.



Case Study Should You Compromise Your Founding Principles for Faster Growth?

by Sandeep Puri

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the case study "Kineer: A Social Marketing Dilemma," by Dominique Turpin, Umashankar Venkatesh, Jones Mathew, and Sandeep Puri.

MARJORIE RODRIGUEZ HEARD her name called and moved toward the stage of the Hilton Bangkok ballroom. She had received awards for her advocacy work for the LGBTQ+ community in the Philippines before, but this was the first time she'd been recognized for Zevoron, the business she'd started three years earlier with the goal of providing jobs for transgender people in Manila and throughout her home country. Zevoron manufactured and distributed polvoron, a soft, crumbly shortbread made of flour, sugar, milk, and nuts, popular in the Philippines. The company

name came from a combination of "ze"—a gender-neutral pronoun—and "polvoron." What set the company apart, and the reason for the award, was that all its marketing and sales staffers were transgender. This unique positioning had struck a chord with customers and helped Marjorie to create a profitable business in a short period of time.¹

Joining her at the ceremony was Oscar Santo Domingo, Zevoron's CEO, a veteran of the food industry and an operational expert, whom Marjorie had brought on soon after founding the company. Although this was



her passion project, she couldn't dedicate 100% of her time to it, given her other commitments.

Marjorie's origin story was familiar to many in the Filipino LGBTQ+ community. She was from a conservative family that shunned her when she came out as transgender. She left home and moved to Manila, where she started her professional life as a photographer's assistant. After paying her own way through the University of the Philippines, she began acting in films, and the visibility gave her a platform for advocacy. In 2018 she partnered with Vivienne Cru, the first

openly transgender member of the Congress of the Philippines, to publish a report on the state of transgender rights in their country. The findings prompted Marjorie to focus on employment issues: Because of widespread discrimination, many in her community struggled to get hired or to keep their jobs. ²

Oscar shared Marjorie's deep belief in Zevoron's mission. "I'm so proud of you," he said after her short acceptance speech.

"Of us," she said. "This is about the organization, not me." Marjorie was used to the spotlight, but she preferred to share it.

"Of course," he said. "Still, you should enjoy the accolades tonight. After all, it's back to work tomorrow."

She knew what was on Oscar's mind: Zevoron was on the cusp of expansion. It had originally targeted business customers, including major retail and souvenir stores. Those B2B buyers had been supportive of the business model and the jobs program. But for the past several months Oscar and Ajay Nitin, the company's national sales manager, had been discussing how and whether to expand their customer base to include grocery stores and bakery distributors. Doing so would require a much larger sales force, and they were worried about a shortage of qualified transgender people in certain locations.

"If we want to continue to win awards like this one," Marjorie said, gesturing at the glass statue on the table, "we have to keep making an impact."

Oscar nodded. He was well aware of her hesitation to change the makeup of the sales force in pursuit of growth. She'd never been particularly focused on



Experience



Case Study Classroom Notes

1. Some experts argue that differentiated products or services are not enough; a company should have unique qualities that set it apart from competitors.

2. The Philippines has no laws specifically protecting gay or transgender people. Its Congress has considered a bill to outlaw discrimination against people based on sexual orientation, gender identity, or expression, but the bill has yet to pass.

3. In a 2017 survey of 206 social enterprises in the Philippines, 60% reported plans to seek new customers and develop new products and services in the upcoming year.

profits. At the same time, she wasn't naive enough to think that they could fulfill their mission without financial success.

"Let's save discussions about the future for tomorrow," Oscar said, raising his glass to toast her. "Now we celebrate our accomplishments." Marjorie smiled as everyone at the table exclaimed, "Tagay!"

BACK IN MANILA

The next afternoon, at Zevoron's offices, Marjorie and Oscar sat down with Ajay for an extended meeting to discuss three-year growth plan proposals—ranging from ambitious to conservative. ³

"Regardless of which targets we land on, we need more people fast," said Ajay. A few of their most successful salespeople had gotten managerial positions with other companies, which was a win for the cause but also meant hiring headaches for Zevoron. "We won't have enough employees if we don't look beyond transgender people."

Marjorie cringed inwardly. Having an all-trans sales team meant a great deal to her, although Ajay had warned her when he first joined that it would eventually become a limitation.

"But it's what makes our brand stand out," Oscar said. "Our sales force allowed us to get attention in this crowded market and attract our first customers. There are tons of polvoron companies. We can't lose this distinction or



4. Might Marjorie and Oscar pursue other angles of differentiation to help Zevoron stand out as a company?

5. When businesses have to make trade-offs between profits and social impact, how should they decide which to prioritize? What factors should they consider?

6. In the United States trans people are twice as likely as the average person in the general population to be unemployed.

we'll have no chance of competing against the big ones." He was articulating exactly what Marjorie was thinking: Wouldn't they be compromising the very thing that set them apart in a cluttered and commoditized product market?⁴

"We'd still lean into our origins and the jobs program in all our marketing," Ajay argued. "And Marjorie is still our founder and main spokesperson. Customers won't forget what we stand for."

"I'm not so sure," Oscar said. "That may be true for existing customers, but what about new ones? In B2B, sales is the face of the company. How is a cisgender salesperson going to get the attention of a new grocery distributor?"

Marjorie cleared her throat, and both men turned to look at her. "You know what I'm going to say, right?" she said with a smile.

In unison, Oscar and Ajay said, "We can't lose sight of our

impact!" She didn't repeat the phrase as often as she had early on, but when they were facing tough decisions, it was a mantra.⁵

"We can make an even bigger impact through growth," Ajay said. "We can fund employment programs with our profits. And perhaps pairing transgender employees with cisgender ones on sales calls will help us get even more traction. I really believe it's time to welcome more people in."

Ajay's point was valid. The more successful and profitable the company was, the more visibility it would have for its workforce program, the more money it could give away, and the greater the platform Marjorie would have for her LGBTQ+ advocacy work.

"We don't want to become a funder, though," Oscar said. "We want to *do* the work, not support it. That was Marjorie's vision."

Marjorie knew that both her colleagues were right. A larger

company could do more good in the world. But the bigger Zevoron got, the harder it would be to stay true to its mission.

She brought out one of her other oft-used phrases: "Let's see what the team thinks."

"WE'RE TORN"

When Zevoron's top salespeople were together in a room, it often got loud. Many of them had known one another for years, long before they worked for the company, so a meeting could feel like a rowdy family reunion. But everyone quieted down quickly when Marjorie stood, their respect for her palpable.

Earlier in the week, at the monthly all-hands meeting, Oscar had shared a draft of the three-year goals, and it had generated a lot of chatter.

Marjorie was grateful to know that this group wouldn't hold



back. “Obviously, achieving these targets—even the conservative ones—will require that we expand our sales force,” she said. “We want your honest opinion.”

“I have a lot of friends looking for jobs,” said Diwa, one of Zevoron’s first salespeople. “I can’t guarantee they’ll hit the ground running, but they’re trainable. We can fill any open positions with trans brothers and sisters.”⁶

A few of the others shook their heads. Noting this, Oscar asked, “Carmelita, what do you think?”

“We spend way too much time training newcomers as it is,” Carmelita said. “It would be a relief to bring in people with actual sales experience, even if they’re not part of the community. It would up our game, make our existing employees more professional.”

“Or scare them away,” said Angelo. “I took this job—and love it—because I can work with

people from my community—people who get me and don’t judge me. I don’t mean this as a threat, but I don’t know if I’ll stay here if I’m going to be working alongside some cisgender dudes.” Several other employees nodded in agreement. Then Angelo added, “No offense, Oscar.”

Everyone laughed. Oscar and Ajay were often the only “cisgender dudes” in these meetings. “None taken,” Oscar said.

“I have a different view,” said Celeste. She was a relatively new hire but clearly talented and had moved up the ladder quickly. “We’ve all had those meetings that turn sour as soon as we enter the room. Having nontrans people will help us get a foot in those doors. We’ll be welcome in more places.”

“Great—we’ll be able to sell to bigots!” Angelo said sarcastically. Everyone laughed, even Celeste, but she wasn’t deterred.⁷

“It’s clear that we’re torn,” she said. “But I think a more diverse sales team will give us a better chance with more-traditional buyers, and after they’ve worked with us, they might become more open-minded. It could be a win-win. And isn’t that what we all want? To be more successful?”

Everyone nodded. It was hard to disagree with that sentiment, but there was still no consensus. Marjorie, who’d been mostly quiet, spoke up now: “I guess it depends on what we mean by ‘more successful.’”⁸

THE REAL REWARD

That night Marjorie was at home, reflecting on the meeting. Oscar had told her afterward to think the decision through a little longer. Ultimately he would support whatever she decided. Now she was mulling over one of the last things he’d said: “This isn’t as



7. In a 2019 Pew Research Center survey, 73% of Filipinos said society should accept gays and lesbians, making the Philippines one of the more “gay-friendly” Asian countries.

8. When you’re running a mission-driven business that relies on sales revenue to succeed, what metrics should you track to measure progress?



Experience

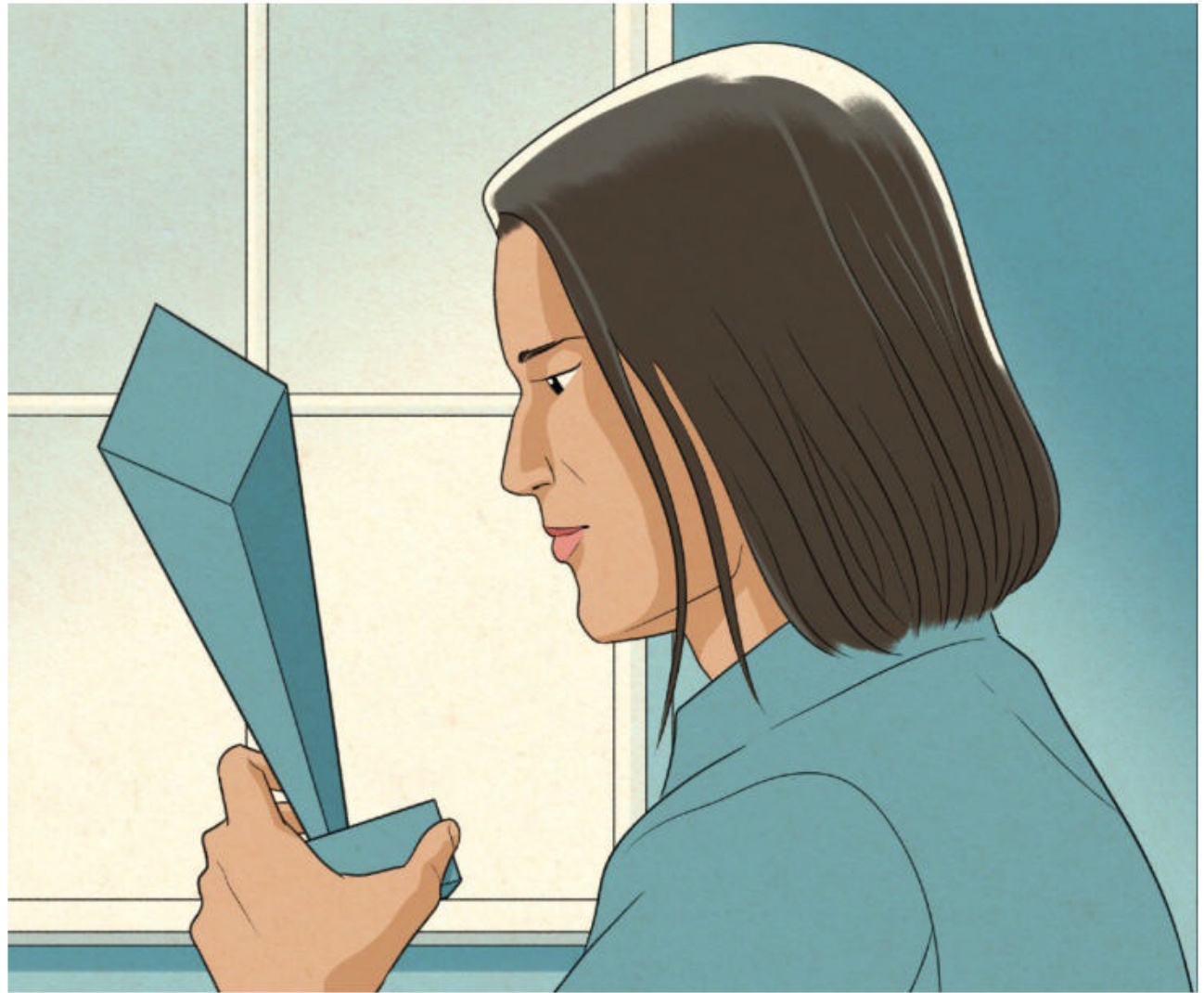
simple as mission versus profit.” He was right. If the choice was whether to prioritize Zevoron’s support of the trans community or its bottom line, she’d pick mission every day of the week. But the two were inextricably linked.

As she sat on her couch, she glanced at the wall where her awards and pictures of her with some famous Filipino celebrities hung. Of course those accolades were meaningful, but she’d rather be in a conference room with the sales team, debating the company’s future, than on a podium or shaking the hand of a movie star.

Keeping the company small—with an all-trans sales force—might be the best way to continue doing what she and so many of their current employees loved. It might also be the only way to retain Zevoron’s competitive advantage in a crowded market.

But would that be holding the company back from making more of an impact, as Ajay contended? She knew how many nonprofits were struggling to find the money they needed to help the trans community. Would running a bigger, more profitable, and faster-growing business—even if it looked different from what she had originally envisioned—be the best way to give back now? Or would she be compromising her vision, essentially selling out? ☹

 **SANDEEP PURI** is a professor at the Asian Institute of Management, in the Philippines.



Should Zevoron change the makeup of its sales force? The experts respond.



FRAN DUNAWAY is a cofounder of the gender-neutral clothing brand TomboyX.

I strongly encourage Marjorie to stick with her current approach of employing an all-transgender sales force.

As an entrepreneur, I know that achieving profitability in three years is no small feat, and she has done that

while staying true to her values and directly supporting her community. She has lightning in a bottle and needs to double down on her strategy, not back away from it.

Zevoron is an incredible platform for raising awareness around what so many transgender people face: They’re discriminated against, marginalized, often threatened, and even murdered. At least 50 transgender or nonbinary individuals are reported to have been killed in the Philippines since 2010, and the real toll is probably much higher, since the deaths of transgender people often go unreported. Until that discrimination disappears, Marjorie needs to keep hiring people like her,

telling their stories, and advocating for change.

If I were in her shoes, I'd start by questioning Ajay's assumption that Zevoron won't be able to meet its talent needs with only transgender new hires. He seems to be coming from a scarcity mindset. Instead I'd listen to Diwa, who says that plenty of trans brothers and sisters are looking for jobs. Perhaps she and Carmelita could be put in charge of recruiting, onboarding, and training. Given how the staff meeting went, I don't think it's wise to introduce cisgender employees into this community of salespeople. That's not to say the company shouldn't have diversity in other parts of the business—it already has that and can have more. But the salespeople are the face of Zevoron and should remain all trans.

When my wife and I were seeking funding to start TomboyX, a manufacturer of gender-neutral undergarments, we knew what we were up against: Women—and especially lesbians—have a harder time raising capital than heterosexual men do. But we didn't look for a token guy to make our team more palatable to investors. We are unapologetic about who we are. From the beginning we have represented the brand and what it stands for: pride in the ability to authentically express your identity.

Marjorie can continue doing what she loves best and can tell the Zevoron story better if she maintains a trans sales force. That gives her a megaphone for sharing both her own story and the personal experiences of her employees. We know that consumers, especially those in Gen Z, care about the mission and purpose behind the products they buy. Zevoron's emphasis on fighting for transgender rights and acceptance and giving people in Marjorie's community valuable skills and rewarding employment is something consumers are already getting behind. In my view, retaining that focus will help the company sell more and grow.



KHADIJAH TRIBBLE is the vice president of CSR at the cannabis company Curaleaf.

It's time for Marjorie and Zevoron to welcome a more diverse sales force.

They should bring nontransgender folks into the mix, but only after careful vetting to ensure that they preserve the company's culture and what differentiates the brand.

When contemplating Marjorie's dilemma, I thought about the LGBTQ+ bookstores I've frequented during my life. While I was attending graduate school in Alabama, trying to find writings about the Black lesbian experience, those bookstores were a lifeline for me as a member of the queer community. They were also judgment-free zones, creating safe places for us to come together and feel connected. Then, in the 1990s and the 2000s, as gays and lesbians gained more rights and recognition, mainstream stores started to establish LGBTQ+ sections. Over time those original safe spaces became less essential.

I see parallels with what Marjorie and Oscar have done with Zevoron. They have created a protective womb for their transgender employees. But if we stay in bubbles like these, we can't achieve the broader impact we want. Zevoron can accomplish more if it invites other people into that space and makes them part of it.

The response from customers that Zevoron has received so far reassures me that this move will work. The company is already and will continue to be differentiated because its sales force will remain mostly transgender. But by ramping up hiring to include nontrans people as well, it will reach even more

people—consumers and employees—with its mission.

We at Curaleaf also want to make a positive impact in the world. We've had internal discussions about how we could make a difference for people who have been negatively affected by the criminalization of marijuana, and we've decided to commit to ensuring that 10% of all our new hires will be individuals who've been touched by cannabis-related offenses. We're betting that consumers, many of whom fought for legalization in various states, will care about this mission.

All that said, Marjorie, Oscar, and Ajay need to make the change to their workforce thoughtfully. They can't bring in just any cisgender salespeople; they must be sure that new hires embrace and will prioritize inclusion. They should be laser-focused on sustaining the Zevoron culture they are trying to preserve and build. That means being intentional not just in recruiting but also in training and policy adoption. It will serve them well to do regular check-ins with existing staff members, especially those who are worried about the expansion.

This is not an easy decision. Zevoron could lose people like Angelo, who'd be unhappy with the change. But as long as Marjorie has given them an opportunity to be heard and has explained clearly why she believes an expanded talent pool is best for the company, she should be comfortable with their leaving.

I don't agree with Oscar that Zevoron will lose what makes it unique if it employs more nontrans people. The differentiation is not just the sales force; it's also that the company is doing trans-centered work. And sometimes you have to expand (and diversify) your army to advance your cause. 🕊

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Experience



SYNTHESIS

DEI Gets Real

How to walk the talk of diversity, equity, and inclusion

by Dagny Dukach

IT'S EASY TO view the corporate world's growing emphasis on DEI—diversity, equity, and inclusion—with cynicism. Too often attempts to address discrimination seem to be more about optics than about real change, with business leaders' being quick to issue statements of support but sluggish when it comes to taking meaningful action. And if you've ever rolled your eyes at a buzzword-laden corporate diversity training, you're not alone.

But in the wake of movements such as Me Too and Black Lives Matter, there's cause for optimism. It's increasingly clear that many people—perhaps even the vast majority—are genuinely disturbed by inequities and are motivated to address them.

What will it take to transform those good intentions into actual shifts in the distribution of power? Four new books shed light on the challenges that women, people of color, and other underrepresented groups face at work and what employees, managers, and organizations can do to make DEI a reality. (While HBR has a policy of not reviewing new releases from our book publishing arm, we'd be remiss if we didn't also point you to the forthcoming *Anti-Racist Leadership*, by James D. White, and *The Necessary Journey*, by Ella F. Washington.)

In *Inclusion on Purpose*, the DEI consultant Ruchika Tulshyan notes that real progress requires not just empathy but proactive, ongoing effort. She offers six strategies for turning empathy into action—be uncomfortable, reflect on what you don't know, invite feedback, limit defensiveness, grow from your mistakes, and expect change to take time—and encourages readers to examine how policies or assumptions that seem “normal” can cause unintended harm. For example, she describes a workplace where social events always included alcohol, thus excluding employees

whose religion, culture, or health kept them from drinking. Tulshyan recommends acknowledging such mistakes, identifying the biases that may have driven them, and working to do better.

While her advice is directed at employees at any level, ***Inclusion Revolution***, by longtime DEI executive Daisy Auger-Domínguez, focuses on what managers should do—for instance, track diversity metrics for hiring, retention, and growth; acknowledge conflict openly; and incentivize progress. She also suggests practices such as holding regular listening sessions, setting up anonymous hotlines for reporting concerns, and making daily “to be” lists of specific ways to operate inclusively. She asserts that middle managers have more power than they may realize. “You can create a sense of psychological safety where everyone feels confident and comfortable to take risks, make mistakes, contribute opinions, and be candid about what they are up against,” she writes. “Managers have this power. *You* have this power.”

Just as managers can sometimes feel powerless, small-business owners and entrepreneurs often feel their DEI efforts are hamstrung by limited resources. But in ***The Antiracist Business Book***, the DEI business coach Trudi Lebrón argues that you don’t need a big budget to make progress.

An entrepreneur herself, she suggests simple strategies such as quick check-ins before meetings, purposefully seeking input from whoever might be affected by a big decision, and when you’re forced to do something that will affect someone negatively, taking preemptive steps to minimize harm. (For example, if you need to lay off

employees to keep your business afloat, provide recommendation letters or job placement support.)

Lebrón also tackles the discomfort associated with wanting to dismantle unjust systems while still hoping to succeed within them—the plight of many socially minded businesspeople. She advises a mindset shift from “Money is a necessary evil that I have to learn to deal with” to “Money is a resource that can be leveraged for good, and I am comfortable and confident in my ability to earn, manage, and leverage it.” She invites readers to reject the “toxic, oppressive, exploitative, and racist” elements of capitalism and reorient toward “just commerce,” insisting that “we can create a new world in which wealth and justice work together.”

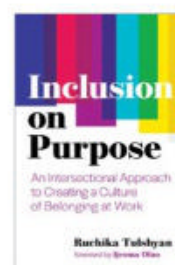
It’s an inspiring goal—and one that Rohini Anand, the former global chief diversity officer of Sodexo, aims to tackle on an international level. In ***Leading Global Diversity, Equity, and Inclusion***, she addresses the often-overlooked challenge of translating DEI programs across multinational organizations with a wide variety of cultural, political, and legal contexts. She recalls one meeting in which a French colleague told her, “Diversity is a very American thing, Rohini. It does not apply to us in Europe as we already have so many nationalities here.” She realized that in France, she would need to speak differently about DEI to get buy-in.

Anand describes another learning moment she had at Sodexo: Tasked with increasing female representation in its India operations, she replicated mentorship programs that had

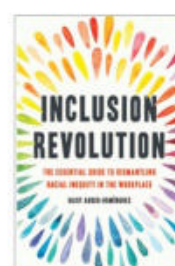
been successful elsewhere. But when they were met with utter disinterest, she scrapped them and started asking local employees about the barriers they faced. The women explained that their mothers-in-law often pressured them to prioritize housework over their jobs, so Anand created a recognition day and told employees to invite their relatives. After seeing their daughters, wives, and mothers receive awards and hearing about their contributions at work, the families lessened their demands at home, allowing the women to invest more in their careers. Anand notes that while this approach might have felt awkward or inappropriate in other locations, it worked in India.

She reminds us that “every place has its history of exclusion, its discrimination, its web of attitudes and systems that fuel and justify marginalization.” The role of global DEI practitioners is to uncover those legacies of power imbalance and determine—in close partnership with local stakeholders and cultural experts—the strategies that will be most effective in addressing them.

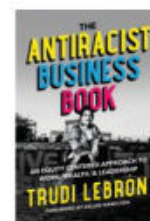
No matter where in the world or the power structure we find ourselves, we all have a part to play in identifying and remedying inequity. While it’s easy to lose hope or descend into anger and cynicism, we’re all better served by working together to listen, understand, and improve ourselves and our workplaces. And there’s so much to be done—so let’s stop rolling our eyes and get to it. 🗣️ **HBR Reprint R2201N**



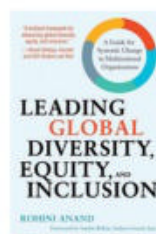
Inclusion on Purpose
Ruchika Tulshyan
MIT Press,
2022



Inclusion Revolution
Daisy Auger-Domínguez
Seal Press,
2022



The Antiracist Business Book
Trudi Lebrón
Row House,
2022



Leading Global Diversity, Equity, and Inclusion
Rohini Anand
Berrett-Koehler, 2021



DAGNY DUKACH is an
associate editor at Harvard

Business Review.

Executive Summaries January–February 2022

SPOTLIGHT

Adapting to Digital Disruption

As Big Tech grows ever more powerful and the number of unicorn start-ups keeps rising, it may seem that old-economy companies are doomed to suffer a slow demise. But the facts show otherwise. In this issue's Spotlight package, HBR looks at how established firms are adjusting to the new digital landscape. | **page 35**



How Incumbents Survive and Thrive

Julian Birkinshaw | page 36

While many believe that technological disruption has been rampant for decades, the internet has actually caused much less creative destruction than people think. An analysis of the *Fortune* 500 and the Global 500, in fact, reveals that most sectors have been surprisingly stable over the past 25 years. Very few firms on those lists today were launched after 1995.

What else is misunderstood? The best response to disrupters. The default is to fight back with a new digital unit or a transformation. But there are three other viable strategies: doubling down on your existing strengths (as Disney did); retrenching to ensure your survival (as banks are doing); and moving into new opportunities (as Fuji did). Each strategy has benefits and risks, and your circumstances determine which one you should pursue.

HBR Reprint S22011



The Strategic Advantage of Incumbency

Thomas W. Malnight and
Ivy Buche | page 43

For most of the 20th century, size, longevity, and a large market share were seen as assets in business. Then they began to be viewed as vulnerabilities, putting many companies in a defensive stance. Successful incumbents, however, convert these traits into market power, lasting relationships, and deep insights and use them to create new opportunities and ward off upstarts. Three capabilities in particular give established firms an edge: the ability to manage complexity, the ability to focus on the long term, and the ability to leverage customers' trust in new arenas. This article describes how companies like Hindustan Unilever Limited, Deere and Company, and A.P. Møller-Maersk have prevailed by exploiting their strengths in these areas.

HBR Reprint S22012



Persuade Your Company to Change Before It's Too Late

Pontus M.A. Siren, Scott D.
Anthony, and Utsav Bhatt
page 49

Executives who spot signs of big market shifts face a quandary: They need good data to convince stakeholders that their companies have to change. But by the time data about disruptive trends is public, opportunities have shrunk or disappeared, and their firms may be on burning platforms.

How can leaders build the conviction to act before evidence is abundantly clear? First, they can gather “private data” (from their employees, customers, and proprietary systems) that illuminates the risks firms face. Second, they can map their firms' position on the *information-action paradox* model and use it and other disruption frameworks to inform discussions that lower the threshold of proof.

HBR Reprint S22013



Can Big Tech Be Disrupted?

Interview by Alison Beard
page 54

The tech giants Facebook (now Meta), Amazon, Apple, Google (now Alphabet), Microsoft, and Netflix are all so successful—and generate so much cash—that they seem virtually unstoppable. Yet according to Jonathan Knee, a Columbia Business School professor and veteran investment banker specializing in media and tech, even the digital superpowers face threats. In this interview he shares an analysis of the weaknesses and strengths of the large tech companies and the strategies they might use to defend themselves.

HBR Reprint S22014

Each article in this Spotlight is available as a single reprint.

The complete Spotlight is also available as a package.

HBR Reprint R2201B

HOW WE DID IT



The Founder of UBI Group on Leading a Transition to Renewable Energy in Africa

Salma Okonkwo | page 30

After building the oil and gas distribution company UBI Group in her native Ghana and then selling a majority stake to an international investor, Salma Okonkwo turned her attention to solar power. As the pace of industrialization in Africa accelerates, she wants to make sure that political and corporate leaders don't repeat the mistakes that their Western and Chinese peers made as they pursued development and economic growth. That's why, in 2018, she created Blue Power Energy. It's still early days for the company, which has 20 employees and hasn't yet started generating revenues. But it's currently building two solar farms in Ghana with the goal of eight more by 2028 and has signed contracts to supply 3 million customers with 140 megawatts of clean energy by the end of 2023. Okonkwo's hope is that she can apply the lessons she learned launching and building UBI to her new venture so that it not only becomes just as successful but also makes a more positive impact on the world.

HBR Reprint R2201A

MANAGING YOURSELF



How to Sell Your Ideas Up the Chain of Command

Ethan Burris | page 139

You have a great idea—a product tweak that will save your company money, a process change to increase your team's productivity, or a plan for heading off a looming crisis. There's just one snag: You're not sure how to approach your boss about it, or worse, you've tried and failed to get the attention of higher-ups.

According to the author's research, two factors are crucial to a successful pitch: having the confidence to make your suggestion and knowing how to frame it to get the best reception from your boss.

The key, the author says, is to understand the psychology of higher-ups—to get inside their heads. Doing so can help you recognize what tips the scales in your favor—and identify the (rare) instances when it's best to try to go around or above them.

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Features

LEADERSHIP



Reinventing Your Leadership Team

Paul Leinwand, Mahadeva Matt Mani, and Blair Sheppard
page 60

Digitization may be necessary for many businesses' continued success, but in our increasingly complex world, what companies really need to do is build new forms of competitive advantage and transform themselves for the future. And that requires fundamental changes in their top leaders—not just in individuals' capabilities but in the way they collectively steer the ship.

Drawing on their research at 12 prominent global firms, the authors note the contradictory-seeming skills that leaders are expected to have—being both great visionaries and expert executors, for example. But in this article they focus on the urgent imperative to improve leadership *teams*, arguing that CEOs should:

- Identify the roles that are needed at the top to reimagine and then deliver on the company's purpose
- Fill those roles thoughtfully, assembling a diverse group of people who think boldly and work together harmoniously
- Focus the team on driving transformation rather than managing the current business
- Take ownership of the team's behavior, fostering trust, collaboration, and a commitment to leading the company forward rather than dwelling on personal advancement

HBR Reprint R2201C

COMPETITIVE STRATEGY



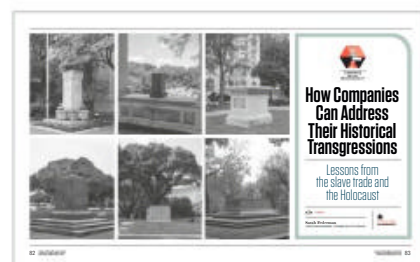
The “New You” Business

Lance A. Bettencourt et al.
page 70

All too often fitness centers, medical providers, colleges, and organizations in many other industries seek to distinguish themselves only on the quality, convenience, and experience of what they sell, say the authors. It's not that those things aren't important. But they matter only as means to the ends that people seek. Too many organizations lose sight of this truth. Even when they do promote what they sell in relation to consumers' aspirations, they rarely design solutions that allow people to realize them. Instead, individuals must cobble together what they think they need to achieve their goals—for example, a trainer, a particular diet, and a support network to lose weight. Enterprises should recognize the economic opportunity offered by a *transformation* business, in which consumers come to them with a desire to improve some fundamental aspect of their lives. Even though we're all filled with hopes, aims, and ambitions, significant change is incredibly hard to accomplish on our own. This article offers an approach to designing a transformation business.

HBR Reprint R2201D

CORPORATE SOCIAL RESPONSIBILITY



How Companies Can Address Their Historical Transgressions

Sarah Federman | page 82

Some multigenerational companies or their predecessors have committed acts in the past that would be anathema today—they invested in or owned slaves, for example, or they were complicit in crimes against humanity. How should today's executives respond to such historical transgressions? Drawing on her recent book about the effort by the French National Railways to make amends for its role in the Holocaust, the author argues that rather than become defensive, executives should accept that appropriately responding to crimes in the past is their fiduciary and moral duty. They can begin by commissioning independent historians, publicly apologizing in a meaningful manner, and offering compensation on the advice of victims'-rights groups. The alternative is often expensive lawsuits and bruising negotiations with victims or their descendants.

HBR Reprint R2201E

CAREER COACHING



Family Ghosts in the Executive Suite

Deborah Ancona and Dennis N.T. Perkins | page 92

Professional growth can get stymied for all sorts of reasons. But one of the most important is rarely discussed: You're contending with ghosts from your past. Early in life, family dynamics give rise to many fundamental behaviors and attitudes toward authority, mastery, and identity. When similar dynamics emerge at work, people often revert to childhood patterns.

To enable change in the personal realm, psychologists often encourage clients to consider the nature of their original family system. This approach can—and should—be applied at work too.

Guided by the tenets of family-systems theory and their own research, the authors have identified six elements of family dynamics that commonly play out in the workplace. To achieve your greatest potential as a leader, you need to recognize your own “family ghosts,” understand how they influence your behavior at work, and decide which ones to celebrate and which ones to leave behind.

HBR Reprint R2201F



Manage Your Organization as a Portfolio of Learning Curves

Whitney Johnson | page 102

As people develop competence in a new domain of expertise, they move along an S Curve: Growth is slow and effortful at the outset, or *launch point*. It then progresses rapidly as people acquire new skills in a stretch known as the *sweet spot*. At the peak is *mastery*, when work becomes easier but the curve flattens. Understanding where your employees are on this S Curve of Learning will help you coach them appropriately, craft thoughtful succession plans, and build a team with diverse but complementary strengths.

The S Curve is a tool that smart managers use to launch conversations with their reports and create tailored development plans for them. It reveals when people are ready for bigger challenges—something that's especially critical if they're in mastery, which may mean they're getting restless and need to jump to a new S Curve. Often the employees don't even realize they're ready to take the leap, but their managers push them anyway.

When that happens, it's key to surround an employee with the right supporting team. A good team will include members from all phases of the curve, who can contribute diverse perspectives and skills.

HBR Reprint R2201G



Quantum Computing for Business Leaders

Jonathan Ruane, Andrew McAfee, and William D. Oliver
page 112

Quantum computers can solve problems exponentially faster than classical computers can. They will bring about two huge changes: an end to our current infrastructure for cybersecurity over public networks and an explosion of algorithmic power that holds the promise to reshape our world.

Scientists face myriad challenges in developing commercially relevant quantum computers. But once they are overcome, the disruption caused by postquantum cryptography will eclipse that of Y2K, which cost the United States and its businesses more than \$100 billion to mitigate.

This article examines the way quantum computers will not only upend digital security but spur investment, reshape industries, and spark innovation.

HBR Reprint R2201H



Sensemaking for Sales

Brent Adamson | page 122

The amount of product and service information available to B2B customers—reports, blogs, display ads, email marketing, and more—has become overwhelming, leading to indecision and a sharply reduced likelihood of making a substantive purchase.

The best reps have turned this conundrum into a prime selling opportunity. Above all else, they help buyers make sense of the information they've encountered. Their approach is a form of sensemaking, and it encompasses three broad activities. Sensemaking sellers *connect customers with relevant resources*, curating the information they share for utility and clarity and including only what will help customers proceed with confidence. They *clarify information*, helping customers feel that they've asked the right questions, understood competing perspectives, and accounted for potential contingencies. And they *collaborate on customer learning*, Socratically guiding buyers on a purchase journey rather than telling them what to do.

A lack of self-confidence impedes big deals more often than a lack of confidence in a particular vendor does. Sensemaking sellers boost customers' self-confidence, enabling buyers to take bold, decisive action with assurance and peace of mind.

HBR Reprint R2201J



Corporate Political Spending Is Bad Business

Dorothy S. Lund and
Leo E. Strine Jr. | page 130

Corporations are facing increased scrutiny over their political spending—particularly when their stated values seem to contradict their lobbying efforts. A 2020 report by the Center for Political Accountability offers abundant examples, including corporations that have publicly demanded racial equality while contributing to groups and candidates that promote racial gerrymandering and corporations that purport to be concerned about climate change while donating to groups that challenge the EPA's clean-power plan. In this groundbreaking article the authors argue that companies should halt political spending entirely to reduce the risk of blowback and enable executives to focus attention and resources on running their companies.

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“A film or show isn’t directed by one person. It’s directed by everybody. We’re all architects of the building.”



Robin Wright

A dancer at 10, a model at 14, and a soap opera actor at 18, Wright catapulted to stardom in the film *The Princess Bride* at age 21. Marriage and children followed, and although she prioritized family over films for many years, she still squeezed in several acclaimed performances. In 2013, she signed on to play Claire Underwood in Netflix’s show *House of Cards*, helping to launch the streaming TV era. Now she directs and acts and is a cofounder of *Pour Les Femmes*, a social enterprise that supports women in conflict zones around the world. **Interview by Alison Beard**

HBR: After hits like *The Princess Bride* and *Forrest Gump*, how did you think about next steps?

WRIGHT: There was pressure: Stay in the game, or you will be forgotten. But I chose not to adhere to that because I had a long-term vision. I knew I wanted to act until I couldn’t anymore, so I needed to be selective. Where are you in your life, spiritually and mentally, when projects come your way? I would see what resonated. Acting is such an emotional job. It’s almost like going to therapy every day because you’re dissecting and embodying a character and getting to the depths of who that person is. There were some roles that I didn’t feel I was ready to take on. I knew somebody else would be so much better.

Shouldn’t you challenge yourself, even if you don’t feel ready?

That came late, well into my 40s. You know, you’re typecast a lot in this industry, and for many years, while I was raising my kids and choosing to do one project a year at most, I was always cast as the pained, soulful woman. But I did want to break out of that box, and *House of Cards* was the catalyst. Claire was the most venal character. She couldn’t have been more of a departure for me.

David Fincher, the producer, has said he had to beg you.

I didn’t want to do TV. I’d been on *Santa Barbara* and remembered how hard it was to do those long hours and memorize 10 to 15 pages of dialogue a day. I loved film and playing different characters instead of being stuck with one. But David said, “Trust me. This is going to be revolutionary.” And I said,

“But what about the part? She’s the governor’s arm candy.” He told me we’d build the character together. He said, “She’ll be Lady Macbeth to his Richard III.” I trust him. I love his movies, his mind. So I said, “OK, let’s go.”

How did you end up directing?

The producers and showrunners asked me. I was scared out of my wits, but I had an incredible crew. Our camera operator had been shooting movies for more than 37 years, and he was like, “I’ve got your back. You’re going to learn as you do it.” It was such a gift. I felt really safe. By the end I just loved directing, especially seeing actors evolve. You give them a note, and they transform right in front of you. It’s so invigorating.

After the abuse allegations against Kevin Spacey and his departure, how did the team figure out a path forward?

We took off almost two months and deliberated: “Should we resume or shut down?” We decided that we wanted to give the fans a close to the show and, equally important, keep our crew and actors employed. We couldn’t say, “I know you were paying for your kid’s college tuition, but sorry.” To finish was the right thing to do.

Now you’re directing films and other shows such as *Ozark*.

What type of leader are you?

The most important thing is to show kindness. It creates an energy where anyone can say, “I don’t know the answer. Let’s have a discussion. You bring your ideas, I’ll bring mine, and we’ll decide what’s best for the project.”

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