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DOUBLE ISSUE

AGILE AT SCALE

HOW TO CREATE A TRULY FLEXIBLE ORGANIZATION

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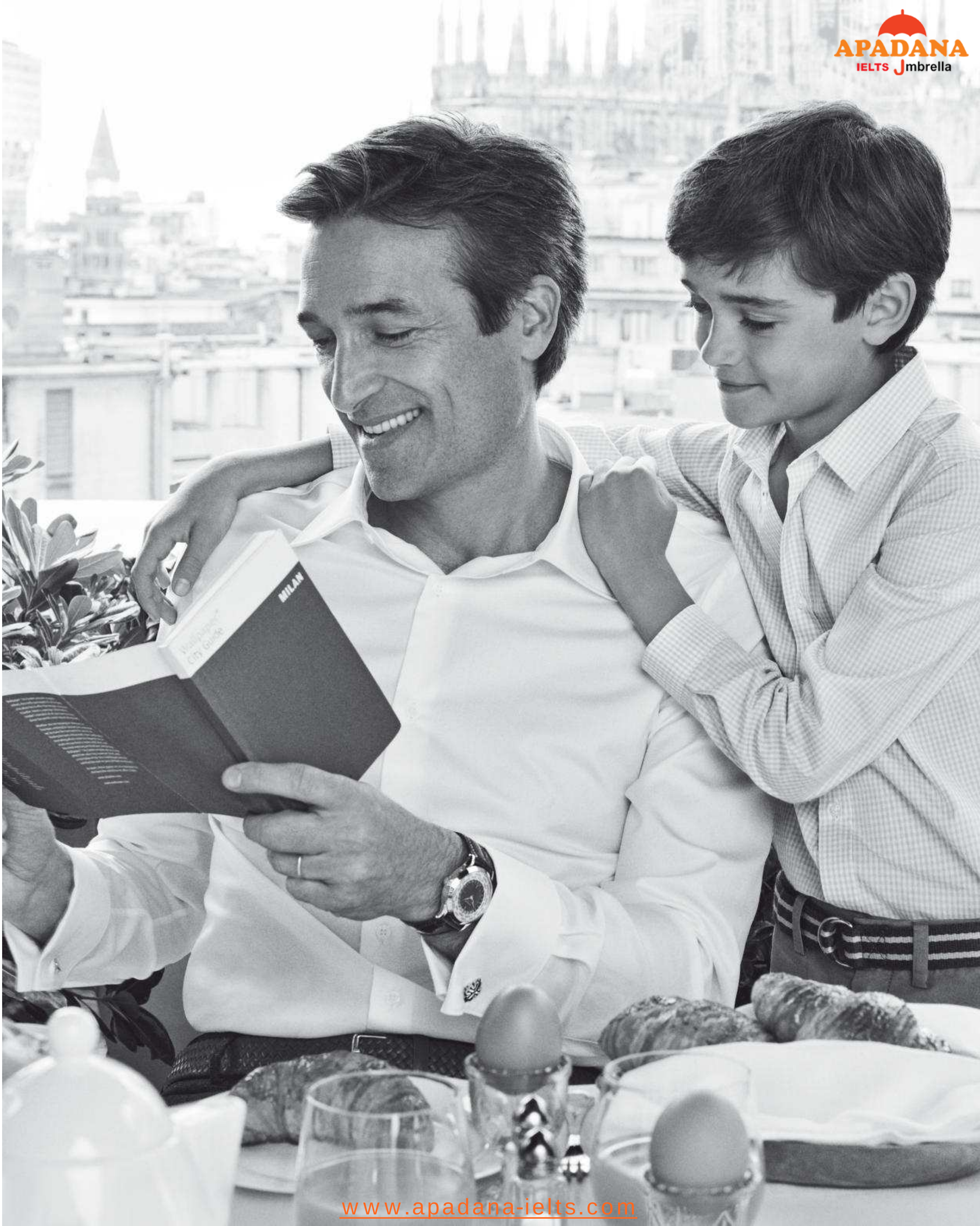
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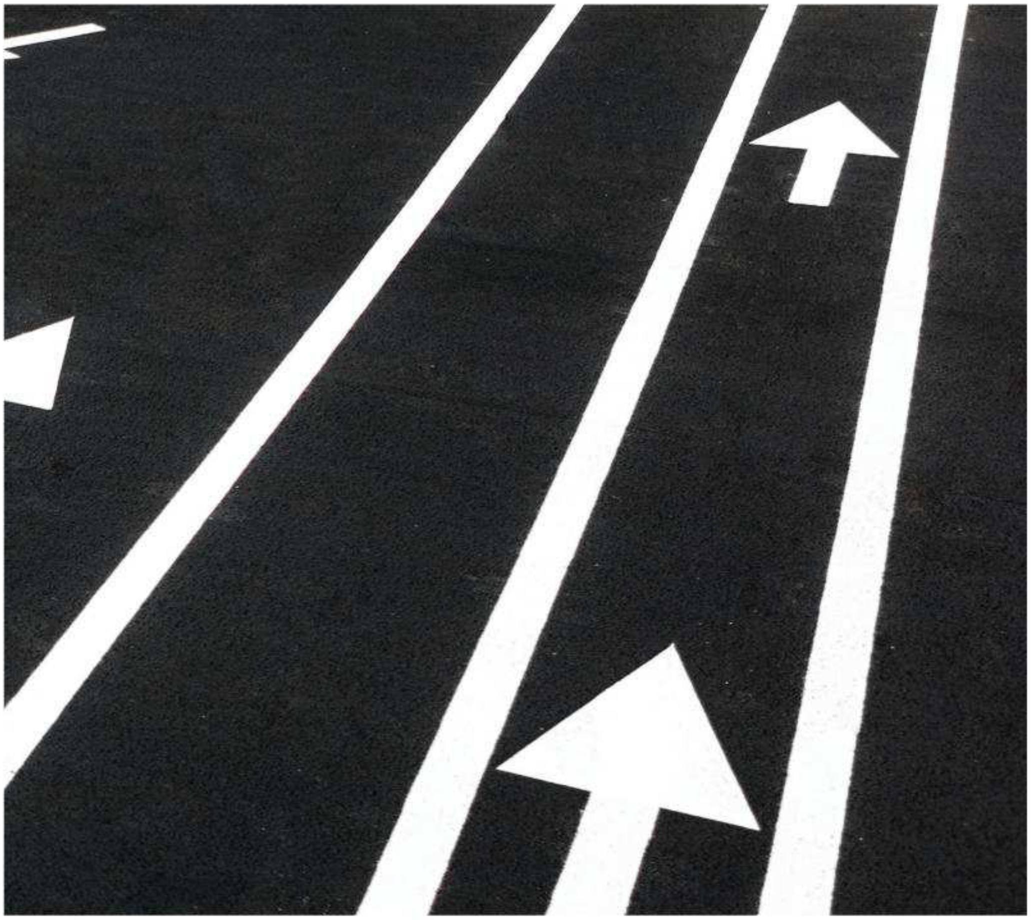

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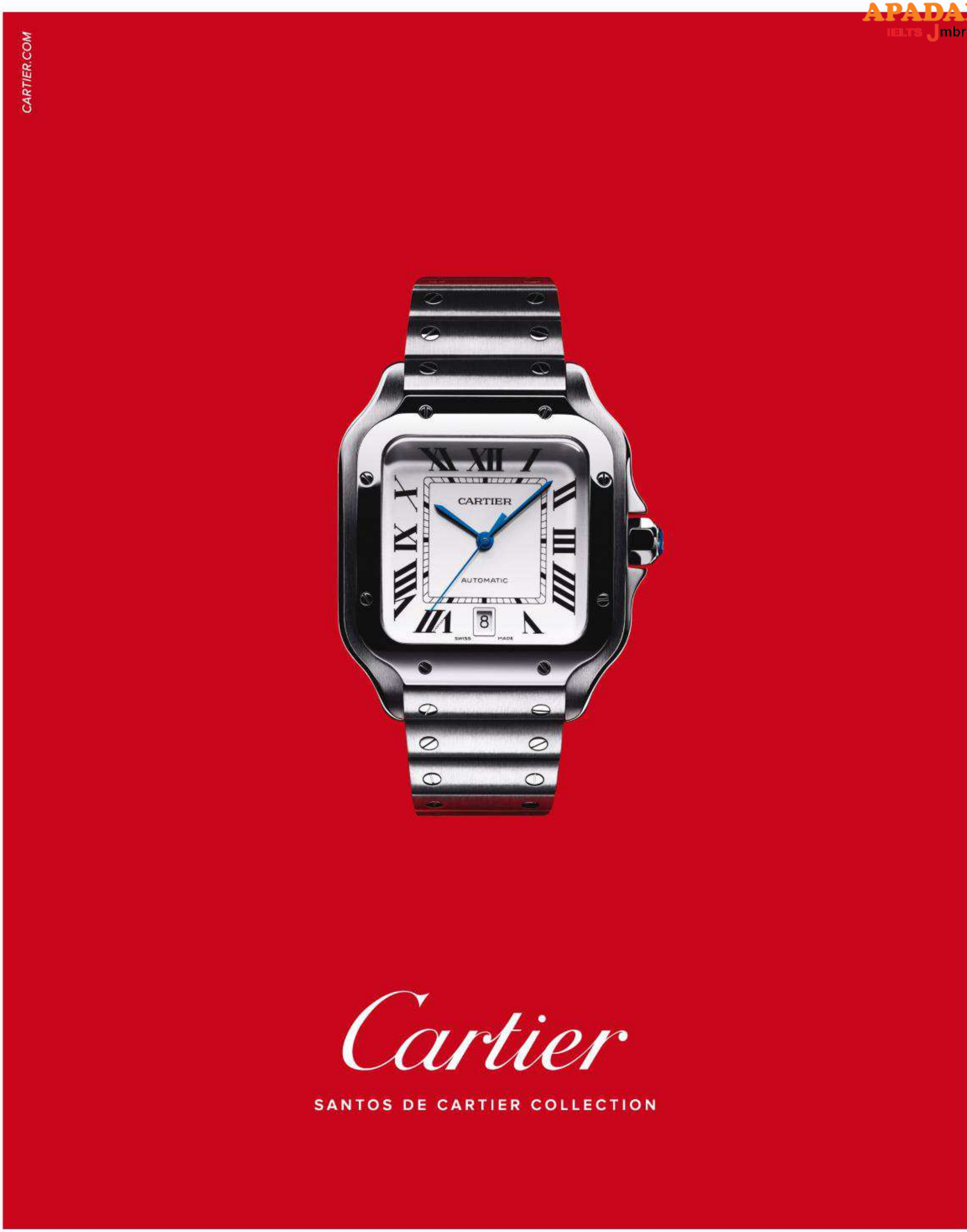
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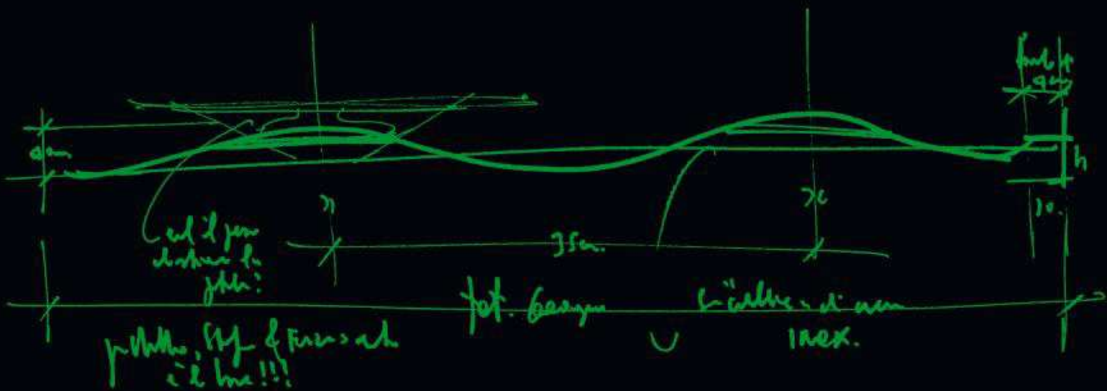


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ALANNA HALE; DUSTIN AKSLAND


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THE VALLÉE DE JOUX. FOR MILLENNIA A HARSH, UNYIELDING ENVIRONMENT; AND SINCE 1875 THE HOME OF AUDEMARS PIGUET, IN THE VILLAGE OF LE BRASSUS. THE EARLY WATCHMAKERS WERE SHAPED HERE, IN AWE OF THE FORCE OF NATURE YET DRIVEN TO MASTER ITS MYSTERIES THROUGH THE COMPLEX MECHANICS OF THEIR CRAFT. STILL TODAY THIS PIONEERING SPIRIT INSPIRES US TO CONSTANTLY CHALLENGE THE CONVENTIONS OF FINE WATCHMAKING.
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FROM THE EDITOR

THE NEW WORLD OF RISK

Political risk in the corporate sphere used to have a pretty specific meaning. It was the danger that a country would act in some way that harmed a multinational's ability to do business. Think of a dictator seizing foreign assets. But as Condoleezza Rice and Amy Zegart note in "Managing 21st-Century Political Risk," on page 130, we need to broaden that definition. "A great deal of the political risk within and across countries now comes from other players: individuals wielding cell phones, local officials issuing city ordinances, terrorists detonating truck bombs, UN officials administering sanctions, and many more," they write.

Rice and Zegart identify three forces driving the new threats, and they're largely the same ones that are reshaping business itself. First, *geopolitics* has become more volatile in ways that go far beyond the rise of nationalism. For decades two superpowers dominated the world, which was divided fairly neatly into allies and adversaries, with trade and security policies that were relatively stable. That's no longer true. "Today's landscape is much more crowded and uncertain—filled with rising states, declining states, failed states, rogue states, and nonstate actors like terrorist groups and cybercriminals," write Rice and Zegart.

Second, *supply chains* are leaner and longer than ever, creating efficiencies but also more points of vulnerability. (See "geopolitics" above.) For example, in 2014, when China moved an oil rig off the coast of Vietnam, anti-Chinese protests near Ho Chi Minh City shut down several local manufacturing operations, turning off the supply of toys and clothing to Li & Fung, the Hong Kong–based global logistics firm. "What had begun as a conflict over disputed territorial waters in Southeast Asia," the authors note, "quickly emptied store shelves in U.S. cities."

Finally, *technology,* which enables so many efficiencies (see "supply chains" above), is also a destabilizing force. Consider how it has turbocharged collective action by connecting people who may share, for example, a grievance against a brand. That's one lesson of the #BoycottNRA movement that has embroiled many companies in the wake of the Florida school shooting. Any cell-phone video can go viral, so any individual can spark an instant movement, as United Airlines learned when footage of a passenger being dragged off a flight captured global attention and tanked United's stock to the tune of $255 million.

Though events like these may seem vanishingly rare, the chance that *some* political risk *somewhere* will derail your business is surprisingly high, and Rice and Zegart offer a remarkably straightforward way to prepare for this probability. Their bigger message cannot be ignored: Political risk management has become a strategic requirement in a world where the next debilitating threat to your organization is as likely to come from a teenager with a smartphone as from a head of state.

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In her role as the faculty director of the Georgetown University Women's Leadership Institute, Cathy Tinsley often heard others mention gender-based differences. "Women are just so much more cooperative," they might say. Or "Women are more cautious." Though the comments portrayed women in a positive light, Tinsley always wondered whether they were true—especially since women weren't moving ahead quickly in the workplace. She decided to look into perceived gender differences, and in her article with Robin Ely, she shares what she has learned.

114 FEATURE
What Most People Get Wrong About Men and Women

Being married to a colleague (INSEAD professor Gianpiero Petriglieri) spurred **Jennifer Petriglieri's** curiosity about the interaction between people's home and work lives. For the past five years she has studied more than 100 dual-career couples and interviewed the heads of people strategy at 32 large companies that employ them. Her research reveals many innovative solutions that couples and organizations have devised to navigate the demands of a dual-career life. In this article Petriglieri shares insights into what organizations can do to attract, develop, and retain the growing population of dual-career couples.

106 FEATURE
Talent Management and the Dual-Career Couple

Since arriving at the University of Toronto, in 2011, **Joshua Gans** has been involved with hundreds of start-ups through the Creative Destruction Lab. "I watched well-heeled entrepreneurs tell new ones to focus, focus, focus," he says. "But when it came to choosing *where* to focus, the entrepreneurs were out to sea. This motivated us to explore ways of allowing entrepreneurs to sort through their choices."

44 SPOTLIGHT
Strategy for Start-Ups

Heidi Grant has long been fascinated by scenarios in which human intuition turns out to be remarkably wrong. As the global director of research and development at the NeuroLeadership Institute and the associate director of Columbia University's Motivation Science Center, she studies influence and motivation. Her recent work explores the gap between people's willingness to give help and help seekers' ability to get it. In her article in this issue and in her new book, *Reinforcements*, Grant explains how to more effectively elicit support at work, at home, and in any other realm of life.

142 MANAGING YOURSELF
How to Get the Help You Need

Jeff Rogers is obsessed with type—a passion that grew out of his early work designing posters for New York theaters. "Those neon and marquee signs on Broadway!" he marvels. "They're so very big and very loud." For the type-based illustrations in this article, he took a more muted approach, choosing to evoke the throwback atmosphere of film noir.

114 FEATURE
What Most People Get Wrong About Men and Women


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INTERACTION

THE B2B ELEMENTS OF VALUE

HBR ARTICLE BY **ERIC ALMQUIST, JAMIE CLEGHORN,** AND **LORI SHERER,** MARCH–APRIL

As B2B offerings become more commoditized, business customers' subjective, sometimes quite personal considerations are increasingly important in purchases. To discover what matters most to B2B buyers, the consulting firm Bain analyzed scores of quantitative and qualitative customer studies. All told, it identified 40 discrete "elements of value," which fall into five categories—table stakes, functional, ease of doing business, individual, and inspirational—and range from strictly objective to more subjective. Understanding this full range of rational and emotional considerations, and tailoring the value proposition to the ones customers prize most, is critical to avoiding the commodity trap.

People frequently buy on emotion and justify with facts. The biggest challenge we face in B2B tech marketing is that most vendors *still* want to churn out boring "justify with facts" content. It's like the wings of a bird: You need both types of content, emotional and rational, to fly. IT decision makers don't simply want to buy *from* you anymore; they want to buy *into* you. That's the game changer at the top of the pyramid.
Paul Cash, founder and CEO, Rooster Punk

I find your study on which elements correlate to a supplier's Net Promoter Score—indicating that product quality, vendor expertise, and responsiveness are crucial to create customer loyalty—especially interesting. Are there any similar analyses about a customer's willingness to spend more money (repurchase intent) with the same vendor? Or about which elements are predictive of the initial buying decision? Or should we conclude that the same factors that build lasting customer loyalty are the main drivers throughout the customer experience? Thanks again for sharing your insights!
Malin Sjöman, partner and senior marketing consultant, Hägvall & Sjöman

Author Jamie Cleghorn responds: High scores on those three elements do indeed highly correlate with repurchase intent. Given the similar correlation with NPS, we believe that the elements provide a great road map to building customer loyalty. One analogy is to a balance sheet review: NPS is the "quick ratio" of the health of your value proposition, while the elements allow a detailed analysis.

The Elements of Value Pyramid lays out the decision "landscape" in B2B purchase decisions extremely well. It illustrates the importance of addressing both the rational and the emotional factors that are most relevant to a buyer. Many of the emotion-based elements are what we refer to as "work with" factors: The buyer invokes them to answer the all-important question "Who do we think we can work with?" This can be the tiebreaker in many high-stakes purchasing decisions.

Following your recommendations would seem to require comprehensive vertical and horizontal access to a customer organization—to "performance thinkers" (whose primary concern is how an offer contributes incremental value to relevant areas of organizational performance), to "execution thinkers" (who are motivated by cost reduction and operational convenience), and to other relevant stakeholders. Understanding the nuanced perspectives, priorities, and relative power positions of these groups and individuals is usually a daunting task and requires a broad organizational commitment on the part of the selling company over an extended period of time.
Harry F. Koolen Jr., managing partner, Performance Learning Designs

> "IT decision makers don't simply want to buy *from* you anymore; they want to buy *into* you."
> – PAUL CASH

BETTER BRAINSTORMING

HBR ARTICLE BY **HAL GREGERSEN,** MARCH–APRIL

Great innovators have long known that the secret to unlocking a better answer is to ask a better question. Applying that insight to brainstorming exercises can vastly improve the search for new ideas—especially when a team is feeling stuck. Brainstorming for questions rather than answers helps you avoid group dynamics that may stifle voices and lets you reframe problems in ways that spur breakthrough thinking.

Genrich Altshuller, creator of the Theory of Inventive Problem Solving (TRIZ), found that contradictions often limit the performance of systems. For example, if I were designing a sailboat and wanted the boat to be fast, I would design the hull with a narrow beam. But when the beam is narrow, the boat is unstable. To make the boat stable, I would design the hull with a broad beam—but that would reduce

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HBR SURVEY

Q: Is work an important expression of your core personal values?

SOURCE "TAKE THIS QUIZ TO FIGURE OUT HOW TO BE HAPPIER AT WORK," BY ANNIE MCKEE

the speed. Contradictions imply a compromise: How can these two contradictory conditions—narrow and broad, fast and stable—exist at the same time? A TRIZ question would be "Can we perform a separation in structure such that we have one of the contradictory characteristics at the system level and the other at the subsystem level?" Consider the catamaran: At the system level the entire boat is very broad. At the subsystem level, each of the two hulls is very narrow. Does a catamaran have a broad beam or a narrow beam? The answer is both. Catamarans are both fast and stable. Resolving this contradiction resulted in a superior design and a breakthrough. In the early days of the America's Cup, all the boats were monohull designs. Today they are all catamarans.
Peter Hanik, president,
Pretium Innovation

I came across two other "question-storming" proponents while completing research for my book *Ask, Inspire, Solve.* Warren Berger talks about the use of question-storming in his wonderful book *A More Beautiful Question,* and the Right Question Institute teaches the same technique to educators, parents, and children. I use question-storming as a first step in developing strategies for organizations.
Katherine Rosback, president,
Katherine Rosback Consulting

The author responds: It's kind of fun to explore the history of the "question burst." Way back in the Book of Job, God probes Job with nonstop questions. It might have been a rat-a-tat-tat interrogation or an opportunity for Job to gain a few insights. In the 1600s the idea of brainstorming questions surfaced again in the Quaker "clearness committee" process. We find the same basic idea in Neil Postman and Charles Weingartner's powerful 1969 call to action, *Teaching as a Subversive Activity.* During the 1980s and 1990s, Marilee Adams (founder of the Inquiry Institute and author of *Change Your Questions, Change Your Life*), Luz Santana and Dan Rothstein (founders of the Right Question Institute and authors of *Make Just One Change*), and I, in my work as a leadership researcher and executive coach, surfaced quite similar questioning processes. I'm all for any effort to build up the questioning capacity of the world. My 4-24 Project is committed to inspiring leaders to set aside four minutes every 24 hours (totaling one full day each year) to ask better questions.

EDITOR'S NOTE: The article "The Most (and Least) Empathetic Companies, 2016," published on HBR.org on December 1, 2016, originally contained a table that purportedly listed the "world's least empathetic companies" and ranked Bharat Petroleum Corporation Limited (BPCL) last. We removed the list soon after publication, owing to concerns about the methodology, which we believe led to inaccuracies in the index and portrayed some companies (such as international companies added to the list in 2016), including BPCL, unfairly. The author removed the list entirely from her website. We regret the insinuations in this article and apologize for any harm it may have caused to the reputation of BPCL, which is one of India's leading public-sector enterprises, recognized as a Maharatna company by the Indian government for its superior overall performance.

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Idea Watch

MAY–JUNE 2018

What managers get wrong about coaching
page 22

ILLUSTRATION BY OVADIA BENISHU

THE BEST ONES ARE CONNECTORS.

MANAGERS CAN'T BE GREAT COACHES ALL BY THEMSELVES

In a utopian corporate world, managers lavish a constant stream of feedback on their direct reports. This is necessary, the thinking goes, because organizations and responsibilities are changing rapidly, requiring employees to constantly upgrade their skills. Indeed, the desire for frequent discussions about development is one reason many companies are moving away from annual performance reviews: A yearly conversation isn't enough.

In the real world, though, constant coaching is rare. Managers face too many demands and too much time pressure, and working with subordinates to develop skills tends to slip to the bottom of the to-do list. One survey of HR leaders found that they expect managers to spend 36% of their time developing subordinates, but a survey of managers showed that the actual amount averages just 9%—and even that may sound unrealistically high to many direct reports.

It turns out that 9% shouldn't be alarming, however, because when it comes to coaching, more isn't necessarily better.

To understand how managers can do a better job of providing the coaching and development up-and-coming talent needs, researchers at Gartner surveyed 7,300 employees and managers across a variety of industries; they followed up by interviewing more than 100 HR executives and surveying another 225. Their focus: What are the best managers doing to develop employees in today's busy work environment?

After coding 90 variables, the researchers identified four distinct coaching profiles:

Teacher Managers coach employees on the basis of their own knowledge and experience, providing advice-oriented feedback and personally directing development. Many have expertise in technical fields and spent years as individual contributors before working their way into managerial roles.

Always-on Managers provide continual coaching, stay on top of employees' development, and give feedback across a range of skills. Their behaviors closely align with what HR professionals typically idealize. These managers may appear to be the most dedicated of the four types to upgrading their employees' skills—they treat it as a daily part of their job.

Connector Managers give targeted feedback in their areas of expertise; otherwise, they connect employees with others on the team or elsewhere in the organization who are better suited to the task. They spend more time than the other three types assessing the skills, needs, and interests of their employees, and they recognize that many skills are best taught by people other than themselves.

Cheerleader Managers take a hands-off approach, delivering positive feedback and putting employees in charge of their own development. They are available and supportive, but they aren't as proactive as the other types of managers when it comes to developing employees' skills.

The four types are more or less evenly distributed within organizations, regardless of industry. The most common type, Cheerleaders, accounts for 29% of managers, while the least common, Teachers, accounts for 22%. The revelations in the research relate not to the prevalence of the various styles but to the impact each has on employee performance.

The first surprise: Whether a manager spends 36% or 9% of her time on employee development doesn't seem to matter. "There is very little correlation between time spent coaching and employee performance," says Jaime Roca, one of Gartner's practice leaders for human resources. "It's less about the quantity and more about the quality."

The second surprise: Those hypervigilant Always-on Managers are doing more harm than good. "We thought that category would perform the best, so this really surprised us," Roca says. In fact, employees coached by Always-on Managers performed worse than those coached by the other types—and were the only category whose performance diminished as a result of coaching.

The researchers identified three main reasons for Always-on Managers' negative effect on performance. First, although these managers believe that more coaching is better, the continual stream of feedback they offer can be overwhelming and detrimental. (The Gartner team compares them to so-called helicopter parents, whose close oversight hampers children's ability to develop independence.) Second, because they spend less time assessing what skills employees need to upgrade, they tend to coach on topics that are less relevant to employees' real needs. Third, they are so focused on personally coaching their employees that they often fail to recognize the limits of their own expertise, so they may try to teach skills they haven't sufficiently mastered themselves. "That last one is a killer—the manager doesn't actually know the solution to whatever the problem is, and he's essentially winging it and providing misguided information," Roca says.

When the researchers dove deep into the connection between coaching style and employee performance, they found a clear winner: Connectors. The employees of these managers are three times as likely as subordinates of the other types to be high performers.

To understand how Connectors work, consider this analogy from the world of sports: A professional tennis player's coach may be the most important voice guiding the player's development, but she may bring in other experts—for strength training, nutrition, and specialized skills such as serves, lobs, and backhands—instead of trying to teach everything herself. Despite this outsourcing, the coach remains deeply

IN PRACTICE
JASON TRUJILLO
"A MANAGER CAN'T HAVE ALL THE ANSWERS"

A 107-year-old company in a fast-changing industry, IBM has a history of adapting to shifts in technology. It's currently in the midst of one such change, as its customers migrate to cloud-based, software-as-a-service solutions. Jason Trujillo, IBM's director of leadership development, spoke with HBR about how the shift to Connector-style coaching is helping drive that change. Edited excerpts follow.

Why are you making this shift now? IBM's cultural transformation is aligned with the reinvention of our business, with almost half our revenue coming from businesses we weren't in six years ago. We've fully embraced design thinking and agile methodologies, which changes the way we work and assemble teams to drive value for our clients. It requires more Connector behaviors from all IBMers. We're systematically creating opportunities for learning through peer-to-peer coaching.

What are the advantages of this approach? It's more market driven. Too often learning and development teams focus on creating and pushing out new kinds of programs for employees—the incentive is really around creation. This approach recognizes that there's a lot of value in "pull"—when people seek what they need. It also offers advantages in cost and speed. Rolling out training to 370,000 people requires a lot of resources and significant time. Connecting with peers is more efficient, and as this approach has taken hold, it's driven a much more viral network effect.

How do employees find colleagues with the right skills to coach them? We created a marketplace platform called Coach.me for coaching needs and solutions. Whether someone needs to learn a hard skill, like writing a certain kind of code, or a soft skill, like improving how she gives feedback, the platform connects her with colleagues who can help. This puts people in control of what they need. And it's connected to our digital learning platform, Your Learning.

What's the incentive for people to spend time coaching a colleague they've never met? We've made it part of our performance management process, which focuses on five elements: business results, client success, innovation, responsibility to others, and skills. We're creating broad awareness that by helping one another, we're helping IBM grow.

Is there a risk that outsourcing coaching to peers will lead managers to shirk development tasks? We don't allow managers to abdicate that responsibility. As a manager, I'm still responsible for the success of my employees. I need to demonstrate and model the right behavior, of constantly learning to keep pace. Our CEO, Ginni Rometty, says very clearly that to be successful at IBM, you need to learn at the exponential pace the market demands. You need the right skills. As for how you get those skills, this approach recognizes that a manager can't have all the answers.

PHOTOGRAPHY BY ZACK GARLITOS

CONTINUED FROM PAGE 22

involved, identifying expertise, facilitating introductions, and monitoring progress.

Encouraging managers to adopt Connector behaviors may require a shift in mindset. "Historically, being a manager is about being directive and telling people what to do," Roca says. "Being a Connector is more about asking the right questions, providing tailored feedback, and helping employees make a connection to a colleague who can help them." The most difficult part is often self-knowledge and candor: Being a Connector requires a manager to recognize that he's not qualified to teach a certain skill and to admit that deficiency to a subordinate. "That isn't something that comes naturally," Roca says.

To get started, the researchers say, managers should focus less on the frequency of their developmental conversations with employees and more on depth and quality. Do you really understand your employees' aspirations and the skills needed to develop in that direction? Next, instead of talking about development only one-on-one, open the conversations up to the team. Encourage colleagues to coach one another, and point out people who have specific skills that others could benefit from learning. Then broaden the scope, encouraging subordinates to connect with colleagues across the organization who might help them gain skills they can't learn from teammates.

For employees, one message from this research is that you're better off working for a Connector than for one of the other types. So how can you recognize whether someone is in that category—ideally before accepting a position? Roca suggests asking your prospective boss about his coaching style and discreetly talking with his current direct reports about how he works to upgrade subordinates' skills.

For managers and subordinates, the research should redirect attention from the frequency of developmental conversations to the quality of interactions and the route taken to help employees gain skills. Says Roca: "The big takeaway is that when it comes to coaching employees, being a Connector is how you win."

HBR Reprint F1803A

ABOUT THE RESEARCH "Coaching vs. Connecting: What the Best Managers Do to Develop Their Employees Today," by Gartner (white paper)

In a series of experiments, listing the dollar value of nonmonetary benefits such as time off made participants more willing to choose jobs with lower salaries but longer vacation time. And they're more likely to believe the company cares about employees' personal lives and work/life balance.

"TRANSLATING TIME TO CASH: MONETIZING NON-SALARY BENEFITS CAN SHIFT EMPLOYMENT PREFERENCES," BY A.V. WHILLANS, R.J. DWYER, AND M. PEROVIC

DECISION MAKING

FOCUSING ON UNKNOWNS CAN REDUCE OVERCONFIDENCE

Overconfidence drives poor decisions in areas ranging from military campaigns to medical treatments to corporate investments and strategic choices. The problem is pervasive and costly, so researchers have spent years investigating its causes. Much of the research blames people's tendency to focus on evidence for the outcome they believe will happen while ignoring other possibilities. To counteract that tendency, groups are often advised to appoint a devil's advocate or instruct people to take alternatives into account.

New research examines another source of overconfidence: the failure to consider unknown variables. In one study, researchers had subjects answer multiple-choice questions, estimate the probability that their answers were correct, explain the reasons for their estimates, and rate the extent to which those reasons relied on known versus unknown information (for instance, one subject trying to assess the caloric content of various fast-food items didn't know the fat content of a meatball). The subjects who cited a high degree of unknown information were significantly less overconfident than others. In a subsequent study that also used multiple-choice questions, some subjects were instructed to "consider the alternative," while others were told to "consider the unknowns." (A control group received no such prompt.) Both of the groups given prompts exhibited less overconfidence than the control group—with people urged to consider the unknowns exhibiting at least as much, and often more, of a reduction in overconfidence as those told to consider the alternative.

"People tend to underappreciate what they don't know," the researchers write. "Thus, overconfidence is driven in part by insufficient consideration of unknown evidence." So instead of focusing only on possible outcomes, pay attention to the unknowns that could strike along the way.

ABOUT THE RESEARCH "Known Unknowns: A Critical Determinant of Confidence and Calibration," by Daniel J. Walters et al. (*Management Science,* 2017)

SUCCESSION

FIND THE RIGHT ROLE FOR EX-FOUNDERS

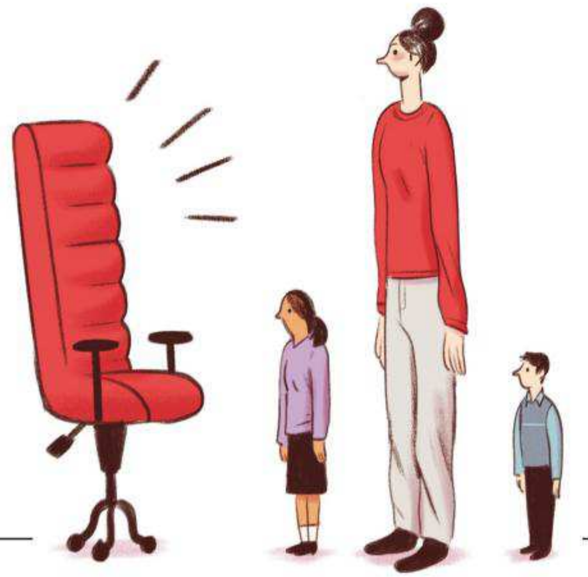
Each year thousands of nonprofits must replace a departing founder. Conventional wisdom argues for a clean break. That way, the thinking goes, the successor will enjoy clear authority and freedom from meddling—the same logic followed by public companies. But new research finds that considerable gains can be made by keeping nonprofit founders involved: Not only can the successor benefit from the outgoing leader's capabilities and knowledge, but staff, board, and funder loyalties may be more easily retained.

Researchers analyzed 106 nonprofit founder transitions; they also surveyed more than 500 founders, successors, board chairs, and others about succession events and conducted 49 in-depth interviews. They found that in voluntary transitions, far more boards work out a continuing role for the founder than arrange for a complete separation—and most respondents in those organizations reported positive effects.

This should be undertaken, the researchers caution, only if four conditions apply: The founder wants and is able to stay engaged; the board perceives that that would be valuable; the founder is willing to play a new role; and the successor is willing to work with the founder. The relationship isn't easy, but several steps can increase the odds of success. Organizations should clearly define the founder's new role, limiting it to specific areas of high interest and expertise, such as maintaining funder ties; arrange for coaching to help founder and successor navigate the new relationship; establish a conflict-resolution process; sequence the transitioning of stakeholder loyalties, perhaps starting with staffers and board members and moving on to funders; and create some initial separation to prevent confusion and allow the successor to settle in.

In addition, the study found that transitions that paired a founder in a continuing role with an internal successor yielded the best results in terms of financial performance, successor tenure, and self-reported success. "The clean break turns out to be far from a one-size-fits-all solution," the researchers write. "Boards would be wise to consider a redefined role for the founder, especially when the successor comes from inside the organization." Although the study did not investigate corporate transitions, the researchers say that the conditions required for a nonprofit founder to stay on could apply to any founder-led company. ■

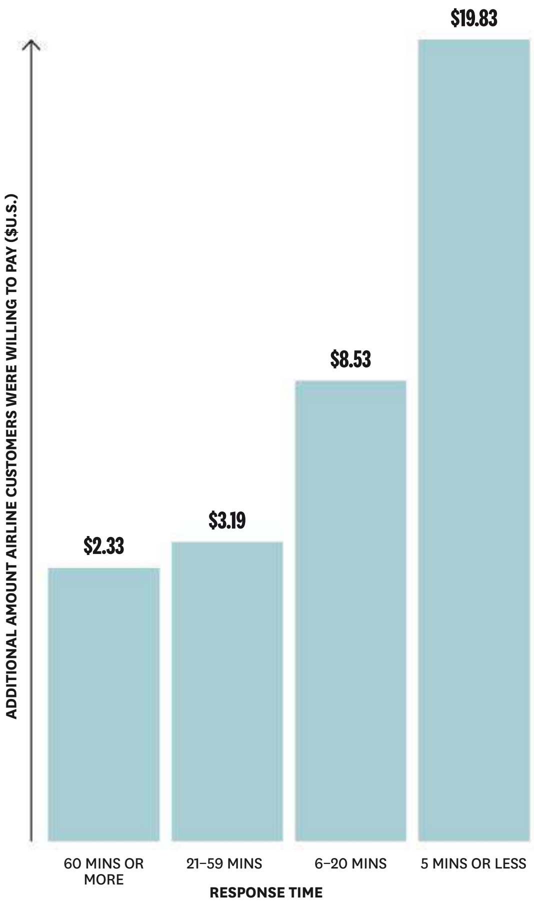
ABOUT THE RESEARCH "Making Founder Successions Work," by Jari Tuomala, Donald Yeh, and Katie Smith Milway (*Stanford Social Innovation Review,* 2018)



CUSTOMER SERVICE

RESPONDING TO TWEETS PAYS OFF

Twitter users post all sorts of comments, but one kind of tweet is particularly common: complaints about poor customer service. Some companies respond; some don't. To understand how the choice affects future consumer purchases, researchers collected more than 400,000 service-related tweets sent to U.S. airlines or wireless carriers from March 2015 to April 2016, identifying those that prompted a company response. They subsequently surveyed some of the customers responsible for the tweets along with a control group whose members had had no customer service interaction. Among customers who had tweeted to airlines, those who got a response said they would pay, on average, almost $9 more for a future flight with that carrier than members of the control group said they would pay—and as the graph below shows, the faster the company's response, the higher the amount customers were willing to pay. ■



SOURCE WAYNE HUANG ET AL.

OPERATIONS
THE TRUE COST OF BEING LAST IN LINE

Imagine you're at a grocery store checkout with five people ahead of you. Logically, it shouldn't matter whether anyone is behind you—your wait time is influenced only by how long it takes to serve those five people. But new research shows how strongly people dislike being at the tail end of a queue—and why that's bad news for any business that requires customers to line up, either physically or virtually.

In a study of 284 customers at a grocery store, shoppers last in line were four times as likely to switch lines as shoppers with at least one person behind them. (That's a problem for the store, because people who switch lines usually end up waiting longer and are less satisfied with the experience.) In an experiment involving 301 subjects who could see their position in an online queue, people who spent most of their time in last place were 19% less satisfied than others with the wait time—including subjects who waited much longer but weren't in last place. In another online experiment, in which only some participants knew whether they were at the end of the queue, people who were aware of their last-place position were four times likelier to quit the line—which in a real-life situation would mean lost sales. This tendency, the researcher says, may arise from the absence of a target for a "downward social comparison," leading the person at the end of the line to wonder, "If nobody is willing to wait longer than me, is staying in the queue worthwhile?"

According to one estimate, Americans spend an average of 118 hours a year in line, so managing lines is an important driver of satisfaction. Most managers emphasize speed, to reduce everyone's wait time. This study suggests an additional strategy: focusing on the back of the queue. "Interventions that engage, distract, or obscure one's relative position when they are in last place, and that emphasize one's relative position when they are not, may help motivate individuals to stay the course," the researcher writes. ■

THE CASE FOR STAYING PUT

IN AN ONLINE SIMULATION INVOLVING SUBJECTS WAITING TO TAKE A SURVEY, PEOPLE (IN ANY POSITION) SWITCHED LINES 1.27 TIMES, ON AVERAGE, WITH SOME SWITCHING A DOZEN OR MORE TIMES.

SWITCHING TWO OR MORE TIMES INCREASED PEOPLE'S OVERALL WAIT TIME BY AN AVERAGE OF MORE THAN 50%.

Jumping to a different line isn't necessarily counterproductive: Real waiting environments often contain visual cues, such as the relative speed of clerks, that can help customers make strategic choices about when switching is likely to save them time. The study shows, however, that people switch even in the absence of such cues—and without them, staying put tends to be a better strategy.

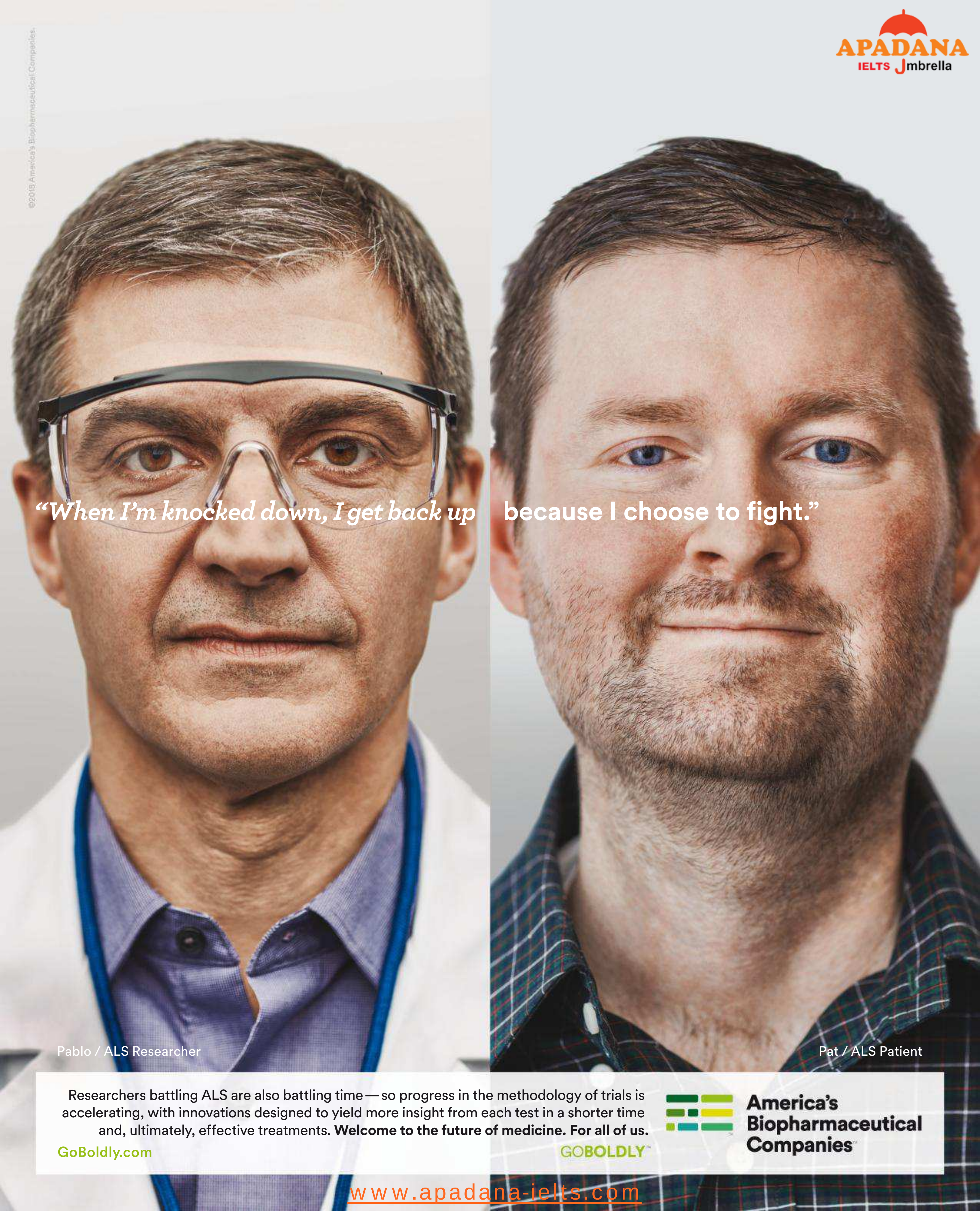
SOURCE "LAST PLACE AVERSION IN QUEUES," BY RYAN W. BUELL (WORKING PAPER)

PRODUCTIVITY
MANAGING THE "IDLE TIME" PROBLEM

Most professionals complain about being too busy. But new research across a variety of occupations, including managers, lawyers, and doctors, points to a different problem. In a survey, 78% of workers reported having "idle time"—periods when they're waiting for a task to be ready for them, as when a customer service rep waits for someone to call—at least once a week, and 22% reported having it every day. This causes a problem for managers beyond the issue of paying workers who are unoccupied: It leads people to intentionally work more slowly.

In lab and online studies, researchers gave subjects typing tasks that took much less time than was allotted and forced them to remain idle after they were finished. Once subjects realized they would face idle time upon the tasks' completion, they slowed their pace. (Researchers call this the "dead time effect"; it's the opposite of the well-established "deadline effect," a term for how workers speed up as a deadline approaches.) In follow-up experiments, researchers showed that changing norms around downtime—for instance, letting workers surf the internet while they wait for their next assignment—prevents slowdowns. "It is likely that managers are not aware of the true extent of employee idle time because it is in employees' best interest to mask it," the researchers write. "Ideally, our research will…call attention to the issue so solutions can be developed." ■

ABOUT THE RESEARCH "The Downside of Downtime: The Prevalence and Work Pacing Consequences of Idle Time at Work," by Andrew Brodsky and Teresa M. Amabile (*Journal of Applied Psychology*, forthcoming)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PRICING

WHY CUSTOMERS WON'T PAY AS MUCH FOR DIGITAL GOODS

Digital products have many advantages over physical ones: They are easier to transport, store, and back up and are less vulnerable to theft, age, and damage. Yet sales of physical goods such as books and DVDs continue to grow, and across many product categories, consumers still value physical goods more than their digital counterparts.

Seeking to explain this puzzling behavior, researchers conducted a series of real-world and online experiments involving movies, novels, textbooks, and photos. They asked subjects how much they would pay for the same items in digital and physical form, had them state the most they would pay, and tested the likelihood that they would buy a physical versus a digital item offered at the same price. To understand the reasoning behind their choices, the researchers asked questions about production costs, resale value, and permanence, eliminating those as factors and identifying another driver. "The key difference is that digital goods do not facilitate the same feeling of ownership that physical goods do," they write. "The very feature that imbues digital goods with their unique abilities—their immateriality—is also what impairs our ability to develop a sense of ownership for them. Because we cannot touch, and hold, and control digital goods in the way that we interact with physical goods, we feel an impaired sense of ownership for digital goods. They never quite feel like they are ours."

For marketers seeking to increase the value of digital goods, the researchers suggest taking steps to counteract this effect. For example, companies might give products attributes that mimic physicality (perhaps representing a digital book with an image of a physical book on a shelf, or requiring people to touch a digital representation to use it) or allow customers to customize digital products, thereby enhancing their sense of control.

ABOUT THE RESEARCH "Digital Goods Are Valued Less Than Physical Goods," by Ozgun Atasoy and Carey K. Morewedge (*Journal of Consumer Research*, 2017)

GLOBALIZATION

HOW "MULTICULTURAL BROKERS" CAN HELP TEAMS PERFORM

Research shows that teams made up of people from different countries can deliver more-creative ideas, but they also experience barriers to effectiveness, owing to the presence of different cultural norms. A new study explores how a "multicultural broker"—someone with experience in two or more cultures—can help.

In an experiment, the researcher created 83 three-person teams. Each included two monocultural members—one from the United States and one from India—and one multicultural member. Some of the multicultural members were Indian-American; the researcher called them "cultural insiders," because their backgrounds overlapped with those of their teammates. Others had backgrounds in other Western and Asian countries (for example, Canada and South Korea); these members were termed "cultural outsiders," because of the lack of overlapping backgrounds. Team members worked together in an online chat system to plan a multicultural wedding, developing ideas for rituals, music, and food from India and the United States. The chats were analyzed to determine whether members were *eliciting* information ("What is a famous American wedding song?") or *integrating* information ("How about a Western wedding song remixed in Bollywood style?"). A panel of experts judged the teams' ideas.

Although the teams performed similarly regardless of whether they included a cultural insider or a cultural outsider, the composition did affect how they operated. Among the multicultural members, the Indian-Americans were uniquely able to integrate information; the cultural outsiders mainly elicited information, which was still valuable to the group.

Until recently, "theories of team composition have assumed that each individual belongs to a single cultural category," the researcher writes. One takeaway for managers is to be especially attentive to the value of individuals who have experience in multiple cultures—and to how their backgrounds overlap with those of other team members—when putting together teams. Another is to recognize that cultural outsiders can add value by asking questions that elicit new information.

ABOUT THE RESEARCH "Cultural Brokerage and Creative Performance in Multicultural Teams," by Sujin Jang (*Organization Science*, 2017)

HARVARD BUSINESS REVIEW SEPTEMBER–OCTOBER 1983

"Love relationships will not go away if ignored; they will most likely lead to organizational stress. Executives must learn to deal with these messy human problems. In fact, the way they approach sensitive issues like love and sex will influence in part the way people view management."

"MANAGERS AND LOVERS," BY ELIZA G.C. COLLINS

HOTELS THAT WRITE RESPONSES TO NEGATIVE TRIPADVISOR REVIEWS SEE THEIR RATINGS INCREASE BY AN AVERAGE OF 0.12 STARS—ALLOWING MANY TO INCREASE THEIR ROUNDED RATING BY HALF A STAR OR MORE.

"STUDY: REPLYING TO CUSTOMER REVIEWS RESULTS IN BETTER RATINGS," BY DAVIDE PROSERPIO AND GIORGOS ZERVAS

COMPENSATION
UNTANGLING THE RELATIONSHIP BETWEEN CEO PAY AND FIRM PERFORMANCE

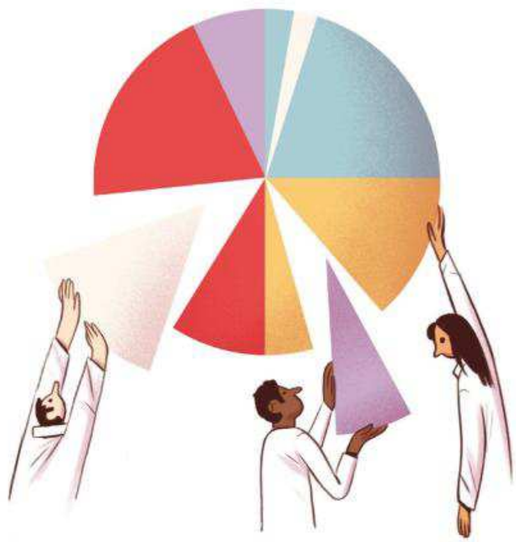
In 2018 the U.S. Securities and Exchange Commission began requiring companies to disclose the ratio of CEO compensation to that of median workers—a move that reflects increasing concern about income inequality. Opinions differ as to what the number will signify, how people will interpret it, and how it will affect worker motivation and firm performance. Proponents of "tournament theory" believe that pay disparity increases the incentive to perform: Large variations, they argue, suggest that if someone works hard and earns a promotion, his or her compensation will jump significantly. But proponents of "equity theory" believe that disparity causes resentment among lower-level employees, leading them to put in less effort or quit.

A new study tries to tease out which theory is correct—concluding that it's a bit of both. Using data from a large sample of S&P 1,500 firms from 2006 to 2013, the researcher first computed the "simple ratio" of the CEO's pay to the median worker's pay. Next he estimated how much of the CEO's pay had to do with company economics, the executive's background, and industry characteristics, finding that this "explained" pay accounted for an average of 56%. Then he examined how firm performance, employee turnover, and various cultural indicators, such as whether a company made a "best places to work" list, varied according to the simple and explained pay ratios.

The results are illuminating. The simple pay ratio did not predict firm performance. But the ratio of explained pay to worker pay was positively related to high performance—suggesting that if CEO pay is based primarily on economic, personal, and industry factors, workers find it fair and motivating. Conversely, companies with high "unexplained" pay ratios experienced negative performance and significant employee turnover and were less likely to be rated a best place to work.

"In interpreting pay disparity, researchers risk conflating income inequality—the difference in compensation between groups—and income inequity, or the notion that these differences are unfair," the researcher writes. His findings suggest that perceived fairness is more important than the raw numbers. ■

ABOUT THE RESEARCH "Rethinking Measurement of Pay Disparity and Its Relation to Firm Performance," by Ethan Rouen (working paper)



HIGH-PERFORMING LEADERSHIP TEAMS SPEND NEARLY 20% MORE TIME THAN LOW-PERFORMING TEAMS DEFINING STRATEGY, 12% MORE TIME ALIGNING THE ORGANIZATION AROUND THAT STRATEGY, AND 14% MORE TIME CHECKING PROGRESS AGAINST STRATEGIC GOALS BY REVIEWING KEY METRICS AND SHIFTING RESOURCES ACCORDINGLY.

"HOW THE MOST SUCCESSFUL TEAMS BRIDGE THE STRATEGY-EXECUTION GAP," BY NATHAN WIITA AND ORLA LEONARD

COMPILED BY HBR EDITORS | SOME OF THESE ARTICLES PREVIOUSLY APPEARED IN DIFFERENT FORM ON HBR.ORG.

DEFEND YOUR RESEARCH

Professor Andrew Jarosz of Mississippi State University and colleagues served vodka-cranberry cocktails to 20 male subjects until their blood alcohol levels neared legal intoxication and then gave each a series of word association problems to solve. Not only did those who imbibed give more correct answers than a sober control group performing the same task, but they also arrived at solutions more quickly. The conclusion:

DRUNK PEOPLE ARE BETTER AT CREATIVE PROBLEM SOLVING

PROFESSOR JAROSZ, DEFEND YOUR RESEARCH

JAROSZ: You often hear of great writers, artists, and composers who claim that alcohol enhanced their creativity, or people who say their ideas are better after a few drinks. We wanted to see if we could find evidence to back that up, and though this was a small experiment, we did. We gave participants 15 questions from a creative problem-solving assessment called the Remote Associates Test, or RAT—for example, "What word relates to these three: 'duck,' 'dollar,' 'fold'?"; the answer to which is "bill." We found that the tipsy people solved two to three more problems than folks who stayed sober. They also submitted their answers more quickly within the one-minute-per-question time limit, which is maybe even more surprising.

HBR: So alcohol doesn't slow us down mentally after all? It still does, but we think that creative problem solving is one area in which a key effect of drunkenness—loss of focus—is a good thing. In an exercise like the RAT, it's important not to fixate on your first thought, and alcohol seems to help that seemingly irrelevant stuff slip in. When we asked participants how much they relied on strategic thinking versus sudden insights to solve the problems, the intoxicated people reported solving via insight on 10% more problems than their sober counterparts did. You might come to the word "bill" by methodically going through associates for "duck," but when you get to harder problems like "cry, front, and ship," that approach could leave you stuck a little longer on an incorrect word like "baby" before you arrive at the answer, which is "war" or "battle." Of course, in many other areas—from working through a complicated math problem to operating heavy machinery—sober control of attention remains very important.

But our brainstorming sessions should happen in bars, not boardrooms? If you need to think outside the box, a few happy-hour drinks or a martini at lunch could be beneficial. But I wouldn't close the bar out, because if you get your blood alcohol level too much beyond .08, you probably won't be very useful. And you might have trouble screening out terrible ideas.

TIPSY SUBJECTS SOLVED 13% TO 20% MORE PROBLEMS THAN SOBER SUBJECTS DID.

You brought people up to a blood alcohol level of .075. Is that the magic number? The idea was to push them toward the legal limit. We chose men ages 21 to 30 who reported roughly the same amount of experience drinking, and we asked them to refrain from alcohol or drugs for 24 hours before the study and from food or caffeine for four hours before. When they came in, we gave them a snack—the portion was based on their weight—and then dosed them with vodka in three drinks over a 30-minute period. The ratio of alcohol to juice was always 1:3, but heavier people got bigger drinks. We then had them blow into Breathalyzers to make sure they were at the target level. However, in a subsequent study by Mathias Benedek and colleagues last year, subjects who drank until they hit a level of .03 also performed better on the RAT than sober peers.

Does it have to be a Cape Codder? I prefer red wine. Vodka-cranberry cocktails are used a lot in these studies because you can easily give people different amounts of alcohol, and the juice masks any taste. But in the Benedek study, people drank beer. So it seems any drink will do.

What about drugs? I couldn't comment on that. But studies have shown that people with specific types of brain damage do better on certain creative tests, as do people who've been woken up in the middle of REM sleep. Those findings make sense to me because they go back to the impairment of focus. Even tea drinking has been shown to enhance creativity, possibly because of the relaxation that ritual triggers. Researchers at Peking University found that people who drank hot Lipton built more interesting structures with children's blocks and came up with more innovative noodle shop names than people who drank plain hot water.

Going back to booze: Could it be that the people who got tipsy were just brighter than those who didn't? We actually made a point of balancing the groups on one measure of mental acuity: working memory. At the start, when everyone was sober, we exposed participants to a series of words, interspersed with math problems, on a computer and then asked them to list the words in order. We matched people whose scores were within one point of each other and put them in separate groups, so average scores for the groups were roughly equal. At the end of the experiment we administered the same test and found that while the sober people did better the second time around, the intoxicated people did not.

Your subjects were all young men. Might you get different results with women or older people? That's an area for future research, but I suspect that we'd see similar results for young women. It might be the same for older people, but many different things are going on in the brain as you age.

Why did you decide to study this? An attempt to justify your own drinking habits? I am a craft beer fan, but no, I'm not typically drinking on the job, and my research focus isn't alcohol. I was more interested in investigating the potential for improving problem-solving skills. There's the old tale of Archimedes' "Aha!" moment in the bath, and I've always wondered what causes people to have sudden flashes of insight. One day I was talking to my coauthors, Gregory Colflesh, who does study alcohol, and Jennifer Wiley, and thought maybe this avenue was one we should explore.

Have scientists found that alcohol yields any other mental benefits? One paper, "Lost in the Sauce," by Michael Sayette at the University of Pittsburgh and coauthors, reported that people under the influence are more susceptible to mind wandering, which could be helpful in some scenarios but harmful in others. My coauthor Gregory has done some interesting work on change detection, asking subjects to spot the differences between two pictures and finding some improvements in performance when people consume alcohol. The mechanism seems similar to the one we found: Instead of going through each pixel on the screen, the intoxicated people are just sitting back and seeing what pops out at them. And I recently came across new research showing that people speak with more fluency in a foreign language when they've been drinking, which is a bit more counterintuitive, since speaking in a nonnative tongue obviously requires focus.

PEOPLE UNDER THE INFLUENCE SUBMITTED ANSWERS MORE QUICKLY THAN PEOPLE IN THE CONTROL GROUP.

I might ascribe those foreign-language results to lower inhibitions and greater confidence, though. Could that help explain why drinkers aced the RAT tests, too? Possibly. Studies do show that alcohol can have both those effects. But in this experiment we didn't collect data on those metrics. What we do know is that our intoxicated participants felt they had more "Aha!" moments than their sober peers.

And those moments led to better, faster performance? In this case, yes. Instead of doing a very focused, goal-directed search for the answer, they engaged in what neuroscientists call "spreading activation." If you looked at an fMRI of their brains, you might see different areas lighting up, indicating that they were subconsciously activating all the recesses of their memories for the right words.

INTOXICATED SUBJECTS HAD MORE "AHA!" MOMENTS THAN THEIR SOBER COUNTERPARTS.

So maybe all people in creative jobs should be drinking more? Very few professions require you to be 100% thinking outside the box or 100% focused, so I think it's going to depend on the task you're doing. You know the old saying "Write drunk, edit sober"? Well, there's a reason the "edit" part is in there.

Then maybe I'll write this up over wine tonight and edit it in the morning. That sounds like an excellent plan.

Interview by **Alison Beard**
HBR Reprint F1803B

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STITCH FIX'S CEO ON SELLING PERSONAL STYLE TO THE MASS MARKET

by Katrina Lake

PHOTOGRAPHY BY ALANNA HALE

At Stitch Fix our business model is simple: We send you clothing and accessories we think you'll like; you keep the items you want and send the others back. We leverage data science to deliver personalization at scale, transcending traditional brick-and-mortar and e-commerce retail experiences. Customers enjoy having an expert stylist do the shopping for them and appreciate the convenience and simplicity of the service.

Of course, making something seem simple and convenient to consumers while working profitably and at scale is complex. It's even more complex in the fashion retail industry, which is crowded, fickle, and rapidly changing. Other apparel retailers attempt to differentiate themselves through the lowest price or the fastest shipping; we differentiate ourselves through personalization. Each Fix shipment, as we call it, is a box containing five clothing and accessory items we've chosen just for you. Those choices are based on information you and millions of others have given us—first in an extensive questionnaire you fill out when you sign up, and then in feedback you provide after each shipment.

Stitch Fix sold $730 million worth of clothing in 2016 and $977 million worth in 2017. One hundred percent of our revenue results directly from our recommendations, which are the core of our business. We have more than 2 million active clients in the United States, and we carry more than 700 brands. We're not upselling you belts that match that blouse you just added to your cart, or touting a certain brand because you've bought it before, or using browsing patterns to intuit that you might be shopping for a little black dress—all activities that have low conversion rates. Instead we make unique and personal selections by combining data and machine learning with expert human judgment.

Data science isn't woven into our culture; it *is* our culture. We started with it at the heart of the business, rather than adding it to a traditional organizational structure, and built the company's algorithms around our clients and their needs. We employ more than 80 data scientists, the majority of whom have PhDs in quantitative fields such as math, neuroscience, statistics, and astrophysics. Data science reports directly to me, and Stitch Fix wouldn't exist without data science. It's that simple.

NOT A VALLEY STORY

We're far from the prototypical Silicon Valley start-up. I don't consider myself a serial entrepreneur: Stitch Fix is the first company I've launched. But I'm fascinated by retail experiences and how untouched they were by modern technology in the 21st century. During my undergraduate years at Stanford, in the early 2000s, and in my first job, as a consultant at the Parthenon Group, I did a lot of work with retailers and restaurants. While I loved both industries and how meaningful they were to people, I was intrigued that they still provided fundamentally the same experience they had in the 1970s—or even the 1950s—despite how much the world had changed. I wondered how they might adapt, and I wanted to be part of that future.

I moved on from Parthenon to become an associate at Leader Ventures, a VC firm, just as the iPhone appeared, in 2007. Still, I was thinking about retail. I studied the economics of Blockbuster during the rise of Netflix. On one side was a company that dominated physical store sales; on the other was a company that dominated sales without stores. It was the perfect case study. And I could see exactly when the scale tipped. Whenever Netflix hit about 30% market share, the local Blockbuster closed. The remaining 70% of customers then faced a decision: try Netflix or travel farther to get movies. More of them tried Netflix, putting more pressure on Blockbuster. Another store would close, and more customers would face that try-or-travel decision, in a downward spiral.

I recognized that other retailers might suffer Blockbuster's fate if they didn't rethink their strategy. For example, how would someone buy jeans 10 years down the road? I knew it wouldn't be the traditional model: go to six stores, pull pairs of jeans off the racks, try them all on. And I didn't think it would resemble today's e-commerce model either: You have 15 tabs open on your browser while you check product measurements and look for what other shoppers are saying. Then you buy multiple pairs and return the ones that don't fit.

The part of me that loves data knew it could be used to create a better experience with apparel. After all, fit and taste are just a bunch of attributes: waist, inseam, material, color, weight, durability, and pattern. It's all just data. If you collect enough, you'll get a pretty good picture of what clothes people want.

But the part of me that loves clothes recognized the human element in shopping—the feeling of finding something you weren't expecting to and delighting in the fact that it fits you and your budget. I saw an opportunity to combine those two elements—data and human experience—to create a new model for buying clothes.

FIT AND TASTE ARE JUST A BUNCH OF ATTRIBUTES: WAIST, MATERIAL, COLOR, WEIGHT, PATTERN. IT'S ALL JUST DATA.

A BAD IDEA?

At first I didn't plan to start a company; I was going to join a start-up that wanted to pursue this idea. At Leader, I met with hundreds of entrepreneurs, hoping the right one would come through. That didn't happen. So I enrolled at Harvard Business School to pursue my risk-averse path to entrepreneurship. I used those two years to plan and launch my company. I received a term sheet to fund Stitch Fix in February 2011; I shipped the first Fix boxes from my apartment in April; and I graduated in May.

Not many people thought it was a good idea. One of my professors called it an inventory nightmare. I wanted to own all the inventory so that I could deeply understand each item and turn it into a lot of structured data. In retail, owning all the inventory is scary, and the professor thought it would make my strategy capital-intensive and risky. But the strategy was ultimately right. Using data to better understand what people want enables us to turn over inventory faster than many conventional retailers do, because we can buy the right things and get them to the right people. Selling inventory fast enough to pay vendors with cash from clients turns out to be a very capital-efficient model.

Then there were skeptical venture capitalists. I would come to pitch meetings with a box of clothes and a personalized card from the stylist. I remember that at one meeting, a VC said within the first five minutes, "I just don't understand why anyone would ever want to receive anything like this." I appreciated his honesty. Many of them were unexcited about warehouses full of clothes. Others were baffled that we employed human stylists who were paid hourly—a very un-VC idea at a time when everything was about automation and apps. Despite our early success, Series B funding conversations got a tepid response. "I think you're great, your team is amazing, and your business is working," one VC told me. "But I get to pick one or two boards a year, and I want to pick ones I feel connected to. I can't get passionate about retail or women's dresses."

That's fair—and frustrating. As it happens, 87% of the employees, 35% of the data scientists, and 32% of the engineers at Stitch Fix are women. More than 90% of venture capitalists are men, and I felt the industry's gender dynamic was working against us. In the end, what didn't kill us made us stronger, because it forced us to focus on profitability and capital efficiency. We've since used cash from our operations to launch new businesses, including men's apparel and plus sizes for women.

Finally, there was the industry itself. By making revenue dependent on fashion recommendations, I had picked one of the more difficult tasks for machine

MIX & MATCH

Stitch Fix uses data that clients supply—beginning with a "style profile"—and a suite of algorithms to capture their reactions to merchandise. Human stylists (algorithmically matched with clients) review and revise every box of five items before it is mailed. Clients respond with written answers to five survey questions about each item, along with comments. That feedback, together with purchase history, allows Stitch Fix to improve its picks over time.

This page illustrates how the algorithm and the stylist together might choose one client's very first Fix and two successive ones.

✗ RETURNED ✓ BOUGHT

FIX 1

The client's style profile guided both the algorithm's choice of this shirt and the stylist's choice of pale pink. ✓

The stylist approved the algorithm's choice of this all-season top, even though it's out of the stated price range, because the client likes florals. ✓

These slip-on sneakers have a high match rate among clients looking for a casual shoe. The stylist thought the floral pattern would add originality. ✓

The client asked for skinny jeans. The stylist selected green from among the algorithm's denim recommendations. ✗

Because the client's style profile said she loves textures, the stylist chose this studded blouse. ✗

FIX 2

The client was looking for a versatile top. The algorithm identified this cashmere sweater because it has been extremely successful with women of her age and physical dimensions. ✓

The client did not like the fit of the green jeans, so the algorithm found a pair that fit better, and the stylist chose blue denim. ✗

The client loved the lightweight floral top in the previous box, so the stylist found this more vibrant variation, which the algorithm suggested would fit well. ✓

The client also loved the pink shirt in the previous box, so the stylist found a different take within the same color palette. ✓

The client wanted a new bag, and the algorithm found this one trending among women of her age. The stylist picked light green to pop against the red palette of the tops in the box. ✗

FIX 3

Because the client kept the cashmere sweater from the previous Fix, the stylist thought this piece, a little bolder, was worth taking a risk on. ✓

The algorithm chose this popular coat for its versatility and affordability. ✓

Stitch Fix now knows the client's preferred color and fit for jeans, so the stylist felt confident in exceeding her price range with this pair. ✓

The algorithm recommended this blouse because the client responded warmly to the color palette in the previous Fix. ✓

The stylist knows that the client is single and dating, so she chose these playful heels to dress up the skinny jeans. ✓

COURTESY OF STITCH FIX

learning. Even people who think they're undiscerning about the clothes they wear do in fact care. Fit, style, material—these matter to all of us. It's a nuanced business. That makes it especially interesting but also more difficult. Early on, focus groups asserted that they just didn't believe we could pick out clothes they'd like. They'd say, "How will it work? Nothing will fit."

The idea of paying us a $20 styling fee up front, credited to your purchase if you keep something, also gave pause. Focus group participants would ask, "Why would I pay $20 when I don't get to pick anything out?" We needed customers to trust that they'd want to keep items. And that has turned out to be true—because of the data science.

OUR ALGORITHMS HELP US SEE TRENDS EARLIER AND MORE ACCURATELY, SO WE CAN STOCK INVENTORY MORE EFFICIENTLY.

ENTER THE ALGORITHMS

When I started, my "data science" was rudimentary. I used SurveyMonkey and Google Docs along with some statistical methods to track preferences and try to make good recommendations. In the beginning, I was essentially acting as a personal stylist. Sometimes I even delivered a Fix box in person. But my plan was always to build a data science operation that would make the business scalable. Our recommendations work because our algorithms are good, but our algorithms are good because data science underpins the company.

Three things make machine learning integral:

Data science reports to the CEO. At most companies, data science reports to the CTO, as part of the engineering team, or sometimes even to finance. Here it's separate, and we have a chief algorithms officer, Eric Colson, who has a seat at the strategy table. Eric came from Netflix in August 2012. Before that he was an adviser to us. He became interested in our company because it presented a challenge. At Netflix, he recalls, someone said, "What if we just started playing a movie we think someone will like when they open the app?" That seemed like a bold but risky idea—to go all in on just one recommendation. He realized that's what Stitch Fix does. As an adviser, he found himself spending a vacation playing with some of our data. He decided to join us full-time—a huge coup for a little start-up.

Because our revenue is dependent on great recommendations from our algorithms, it's even more crucial that our data scientists have a direct line to the CEO. We also believe it sends a message to the organization as a whole about our values and our approach to strategy: Data science is extremely important, and other teams, such as marketing and engineering, will increase their capabilities by partnering closely with our data science team.

Innovation is done by data science. We've developed dozens of algorithms that no one ever asked for, because we allow our data science team to create new solutions and determine whether they have potential. No one explicitly asked the team to develop algorithms to do rebuy recommendations, for example. (Rebuys happen when a certain inventory item is selling well and we need to acquire more of it.) Our algorithms help us see these trends earlier and more accurately, so we can stock inventory more efficiently and be ready for spikes in demand. Recently the team came up with a way to track the movements of employees in our warehouses and created an algorithm that could help optimize routes without expensive remapping of the spaces as they change.

It's sometimes hard for people to imagine how deeply ingrained data science is in our culture. We use many kinds of algorithms now, and we're building many more. Personalized recommendations of clothing, of course, are driven by machine learning. Fulfillment and inventory management use algorithms to keep capital costs low, inventory moving, and deliveries efficient. Product development has adapted some algorithms from genetics to find successful "traits" in clothes. We've even started using machine learning to design apparel.

Hybrid Designs, our in-house clothing brand, came to life one rainy afternoon when a couple of data scientists were thinking about how to fill product gaps in the marketplace. For example, many female clients in their mid-40s were asking for capped-sleeve blouses, but that style was missing from our current inventory set. Fast-forward a year, and we have 29 apparel items for women and plus sizes that were designed by computer and meet some specific, previously unfilled needs our clients have.

WE MUST ACCOUNT FOR LOTS OF VARIABLES: MEASUREMENTS, THE CUSTOMER'S TASTE, THE SEASON, PAST TRENDS.

Another way we apply a quantitative approach to fashion is with measurement data. We track anywhere from 30 to 100 measurements on a garment, depending on what type it is, and we now know—from the experiences of more than 2 million active clients—what kind of fit would make a customer spend outside her or his comfort zone. We know the optimal ratio of chest size to shirt width on a men's shirt. Using data analysis, we adjusted the distance from the collar to the first button on shirts for men with large chests. We know what proportion of the population fits a 27-inch inseam, and we can stock according to that proportion.

But in some ways, that's the easy part. The real challenge is having the right dress in the right color and the right size at the right time. The math around that is complex. We must account for all the measurements plus the taste of the customer, the season, the location, past trends—lots of variables.

Given a dollar to invest in the company and the choice to use it for marketing, product, or data science, we'd almost always choose data science. We're glad we started with data science at our core rather than trying to transform a traditional retailer, which I believe wouldn't have worked. For a traditional retailer to say, "Let's do what Stitch Fix does" would be like my saying, "I'd like to be taller now."

Don't forget the people. The analytical part of me loves our algorithmic approach. But shopping is inherently a personal and human activity. That's why we insist on combining data with a human stylist who can alter or override the product assortment our styling algorithm has delivered. Our stylists come from a range of design and retail backgrounds, but they all have an appreciation for the data and feel love and empathy for our clients. Humans are much better than machines at some things—and they are likely to stay that way for a long time.

For example, when a client writes in with a very specific request, such as "I need a dress for an outdoor wedding in July," our stylists immediately know what dress options might work for that event. In addition, our clients often share intimate details of a pregnancy, a major weight loss, or a new job opportunity—all occasions whose importance a machine can't fully understand. But our stylists know exactly how special such life moments are and can go above and beyond to curate the right look, connect with the clients, and improvise when needed. That creates incredible brand loyalty.

It's simple: A good person plus a good algorithm is far superior to the best person or the best algorithm alone. We aren't pitting people and data against each other. We need them to work together. We're not training machines to behave like humans, and we're certainly not training humans to behave like machines. And we all need to acknowledge that we're fallible—the stylist, the data scientist, me. We're all wrong sometimes—even the algorithm. The important thing is that we keep learning from that.

HBR Reprint R1803A

2017 HBR McKINSEY AWARDS

The HBR McKinsey Awards, judged by an independent panel of business and academic leaders, commend outstanding articles published each year in *Harvard Business Review*. The awards were established in 1959 to recognize practical and groundbreaking management thinking.

FIRST PLACE

Why Do We Undervalue Competent Management?

SEPTEMBER–OCTOBER 2017

Strategists have long held that operational effectiveness is not a source of competitive differentiation. But an in-depth research project by **Raffaella Sadun** (Harvard Business School), **Nicholas Bloom** (Stanford), and **John Van Reenen** (MIT) finds that good management is highly correlated with measures of strategic success, persists over time, and is difficult to imitate.

THE FINALISTS

Strategy in the Age of Superabundant Capital

MARCH–APRIL 2017

Bain & Company authors **Michael Mankins, Karen Harris,** and **David Harding** observe that cash has become abundant and cheap—but managerial practice doesn't reflect the new environment. Companies need to lower hurdle rates, invest more in growth, and focus on developing human capital.

Globalization in the Age of Trump

JULY–AUGUST 2017

The current wave of protectionism is worrying, but executives should keep two things in mind, writes NYU's **Pankaj Ghemawat.** First, history tells us that international trade and investment never get rolled back very far, even during trade wars. Second, the world is far less globalized than most people think. Companies may want to adjust their global strategy, but they shouldn't overreact.

THE JUDGES

PETER CAPPELLI
Professor
The Wharton School

CLAUDIO FERNÁNDEZ-ARÁOZ
Senior adviser
Egon Zehnder

ERIN MEYER
Professor
INSEAD

MARTHA SAMUELSON
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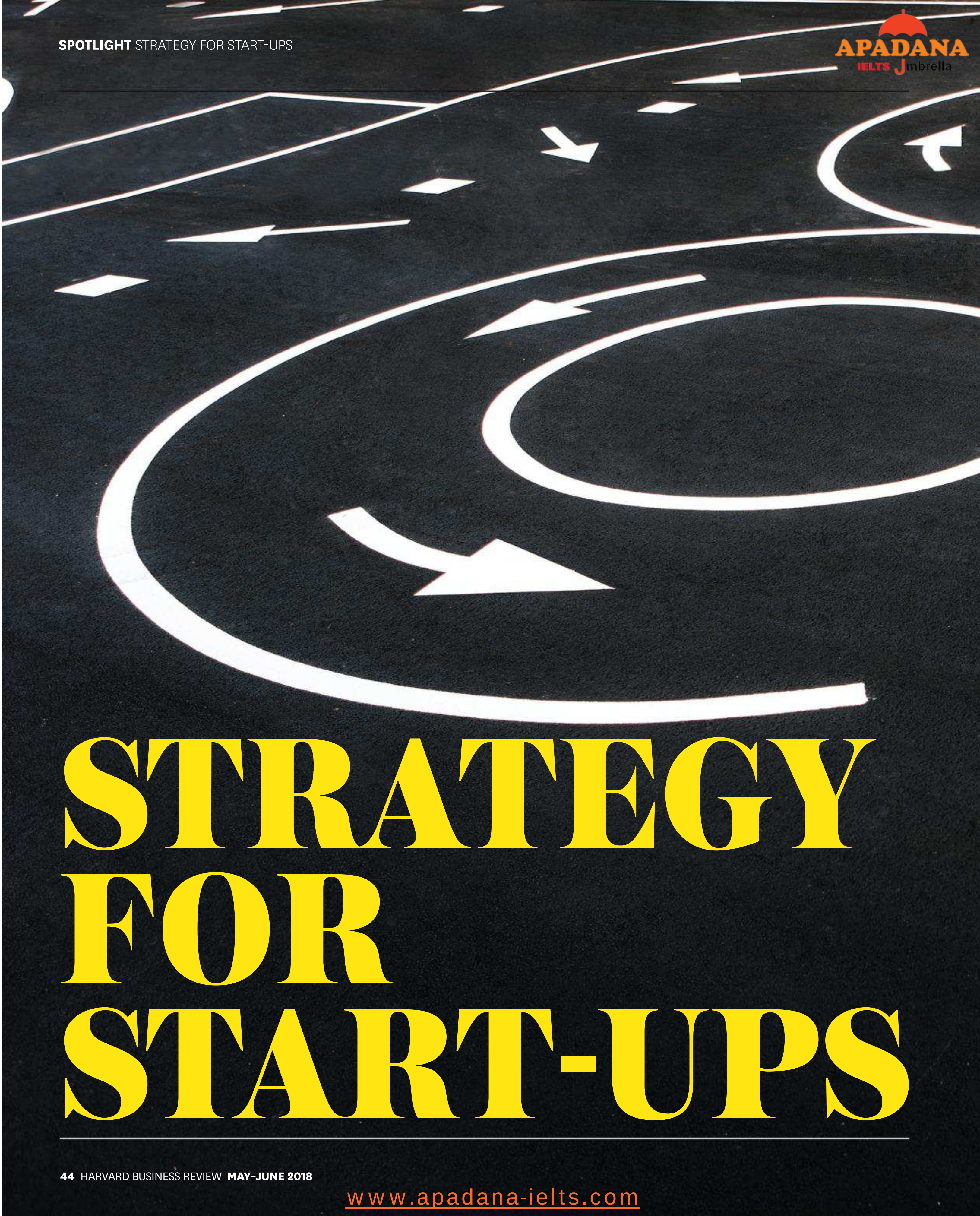
Spotlight

MAY–JUNE 2018

GAELLE RENARD/EYEEM/GETTY IMAGES

Do Entrepreneurs Need a Strategy?



STRATEGY FOR START-UPS

ROMASTUDIO/DREAMSTIME

BY JOSHUA GANS, ERIN L. SCOTT, AND SCOTT STERN

A s a start-up, RapidSOS was an easy sell: It would bring 911 calls into the smartphone age. Emergency-response systems had evolved in a premobile era, which meant that few of them could accurately identify the location of callers who were using mobile phones, compromising response times and medical outcomes. The founders of RapidSOS—Michael Martin, an HBS graduate, and Nick Horelik, an MIT engineer—had developed a way to transmit mobile phone locations to existing 911 systems that would require only minimal adaptation on the part of other players in the emergency-services sector. After attracting early-stage financing at business plan competitions, Martin and Horelik reached a crossroads: How should they take their technology to market?

The answer wasn't straightforward—in fact, they identified four possible paths. (See the exhibit "The Entrepreneurial Strategy Compass.") They could be wildly ambitious and attempt to replace the emergency-response system altogether—creating an "Uber for ambulances." They could try a classic disruption strategy—initially targeting poorly served populations, such as people with epilepsy, with the intention of eventually expanding to a wider swath of customers. They could avoid direct competition altogether, either by helping incumbents modernize their operations—perhaps working with 911 equipment suppliers such as Motorola—or by partnering with insurance companies, which ultimately cover the cost of ambulance service.

Many entrepreneurs, operating in the fog of uncertainty, worry that exploration will delay commercialization. They go, therefore, with the first practical strategy that comes to mind, deriding the deliberation and planning that accompany careful strategizing. As Richard Branson has famously claimed, "In the end you [have] to say, 'Screw it, just do it' and get on and try it."

There are times when that approach works, of course. But usually such ad hoc experimentation should be avoided, even when it requires few resources. Entrepreneurs who commit to the first promising route they see leave their start-ups vulnerable to competitors that take a less obvious but ultimately more powerful route to commercialization and customers. Shai Agassi, for example, spent almost $1 billion building an ecosystem to support Better Place, his "swappable battery" approach to the electric car business. Elon Musk's more deliberative, stepwise approach to developing an integrated, highly reliable Tesla turned out to be a smarter strategy.

And that's not the only problem with an action-first philosophy. Founders are both more confident and more persuasive to investors, employees, and partners when they can demonstrate an idea's potential across multiple strategies, validating the underlying assumptions and strength of the idea itself.

Is there a way to think through your strategic options without slowing down the process too much? After working with and studying hundreds of start-ups over the past 20 years, we have developed a framework, which we call the entrepreneurial strategy compass, that allows company founders to approach the critical choices they face in a practical and clarifying way. It delineates four generic go-to-market strategies they should consider as they move from an idea to the launch stage, each of which offers a distinct way for the venture to create and capture value.

THE ENTREPRENEURIAL STRATEGY COMPASS

At the heart of our approach is the recognition that a go-to-market strategy for any innovation involves making choices about which customers to target, what technologies to apply, what organizational identity to assume, and how to position the company against which competitors. (See the sidebar "The Four Decisions.")

IN BRIEF

THE PROBLEM
In their haste to get to market, entrepreneurs often run with the first plausible strategy they identify. As a result, they end up losing out to second or even third movers with superior strategies.

WHY IT HAPPENS
In the innovation space it's easy to get overwhelmed by the apparent range of opportunities. Entrepreneurs fear that spending too much time weighing the alternatives will delay commercialization. The strategic commitments they make in moving forward limit their ability to pivot.

THE SOLUTION
Start-ups can improve their chances of picking the right path by investigating four generic go-to-market strategies, articulating multiple plausible versions of those strategies, and choosing the one that aligns most closely with their founders' values and motivations.

To complicate matters, the decisions are interdependent—the choice of customers influences the company's organizational identity and its technology options.

For corporations with resources, the four decisions involve analyzing data they probably already have. They can also quite often afford to engage in market research and experimentation along multiple fronts. And they can draw on prior experience. A start-up on a shoestring, in contrast, lacks a history and the knowledge it brings. However, that can actually be an advantage, because prior experience, historical data, and commitments that drive existing practices may create blind spots for established corporations, possibly even causing them to overlook innovations that pose an existential threat. Nevertheless, start-ups may ultimately face competition when incumbents wake up to new innovations, and they will definitely face pressure from other start-ups trying to beat them to market.

Entrepreneurs may feel overwhelmed by the vast number of choices they face, even though some paths can be dismissed as impractical, and some won't coherently mesh. Our research suggests, however, that the four categories of the compass make the process manageable, getting young companies to workable go-to-market strategies quickly and laying bare the assumptions that inform choices.

To sort through potential strategies, every new venture must consider two specific competitive trade-offs:

Collaborate or compete? Working with established players provides access to resources and supply chains that may enable the start-up to enter a larger and better-established market more quickly. Then again, the venture may encounter significant delays owing to the bureaucratic nature of large organizations and may also capture a smaller fraction of that potentially larger pie. (The incumbent is likely to hold greater bargaining power in the relationship—particularly if it can appropriate key elements of the start-up's idea.)

The alternative, too, has pluses and minuses. Competing against established players in an industry means the start-up has more freedom to build the value chain it envisions, to work with customers that the incumbents may have overlooked, and to bring innovations to market that enhance value for customers while displacing otherwise successful products. However, it means taking on competitors that have greater financial resources and an established business infrastructure.

Many entrepreneurs worry that exploration will delay commercialization. So they go with the first practical strategy that comes to mind.

Build a moat or storm a hill? Some companies believe that they have more to gain from maintaining tight control over a product or a technology and that imitation will leave them vulnerable. Thus they invest in protecting intellectual property. Formal IP protection, though expensive, can allow a technology-driven start-up to exclude others from direct competition or to wield significant bargaining power in negotiations with a supply chain partner. But prioritizing control raises the transaction costs and challenges of bringing an innovation to market and working with customers and partners.

In contrast, concentrating on quickly getting to market speeds up commercialization and development, which typically occurs in close collaboration with partners and customers. Start-ups that choose to pursue this route prioritize the ability to experiment and iterate on their ideas directly in the marketplace. Whereas a strategy built on control can delay entry, start-ups focused on getting to market expect competition and use their agility to respond when competitive threats arise. They move fast and break things.

Zeroing in on these two questions greatly simplifies the process of strategic reflection. Rather than seek to identify an á la carte combination of choices that are "right" for a given idea, a founding team can consider the potential for value creation and value capture from the various options that might be crafted within each of the four strategies.

Let's now consider the four.

THE INTELLECTUAL PROPERTY STRATEGY

In this quadrant of the compass, the company collaborates with incumbents and retains control of its product or technology. The start-up focuses on idea generation and development and avoids the costs of downstream, customer-facing activities. The core idea must be of value

THE ENTREPRENEURIAL STRATEGY COMPASS

Strategic opportunities for new ventures can be categorized along two dimensions: attitude toward incumbents (collaborate or compete?) and attitude toward the innovation (build a moat or storm a hill?). This produces four distinct strategies that will guide a venture's decisions regarding customers, technologies, identity, and competitive space. The emergency-services provider RapidSOS used the compass to explore its strategic options.

Maintain control of the innovation and find a way to create value within the existing marketplace. Focus on being an idea factory.

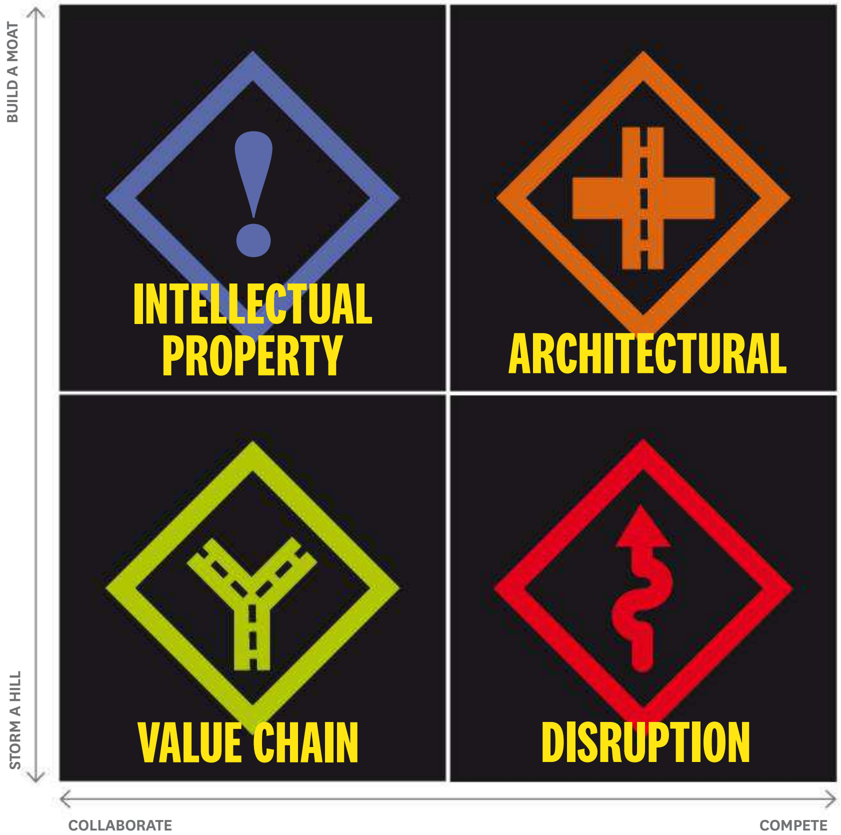
For example, Dolby is the global standard setter for sound technology; it licenses proprietary technology to Sony, Bose, Apple, and others.

RapidSOS could keep the technology proprietary and work with existing 911 equipment suppliers such as Motorola to modernize operations.

Create and control a new value chain, often using a platform business. Protect intellectual property.

For example, OpenTable developed a proprietary platform that allowed diners to make reservations efficiently and in so doing established influence over customer flow to restaurants.

RapidSOS could replace the existing emergency response system altogether.



Focus on creating value for partners in the existing value chain. Execute quickly.

For example, Peapod became the leading U.S. internet grocer by fitting into—and improving—the grocery industry.

RapidSOS could partner with insurance companies (which ultimately pay for ambulance services); the product might take the form of a smartphone app.

Compete directly with incumbents. Take them by surprise with fast execution.

For example, Rent the Runway challenged high-end retailers by offering aspiring fashion-oriented women the ability to rent rather than buy designer clothes.

RapidSOS could first target poorly served populations (such as epilepsy patients) and later serve a larger swath of customers.

to the customers of incumbents; therefore, development choices concerning it will dictate which incumbents are the most suitable partners for the venture.

In addition, because cooperation requires alignment with the incumbents' activities, the start-up will probably choose generalizable technology investments compatible with existing systems. Finally, the start-up's identity—as a kind of idea factory—will be reflected in its development of innovations that can be brought to market through chosen incumbents. But it will see itself as developing a small number of modular technologies that can make a decisive difference for the industry and it won't engage in unstructured experimentation with every potential new technology.

The sound company Dolby provides a quintessential example. Anyone in the market for a stereo system or watching a movie in a theater is guaranteed to come across the Dolby name. Dolby Laboratories' patented noise-reduction technologies, invented by Ray Dolby in 1965, became a global standard, retaining market leadership for 50 years. Dolby technologies have been credited with elevating the emotional intensity of iconic films such as Stanley Kubrick's *A Clockwork Orange* and George Lucas's *Star Wars*. Yet Dolby's multibillion-dollar valuation was achieved with only limited interaction with film directors, music producers, and audiophiles. The company has licensed its proprietary technology to many product developers and manufacturers, including Sony, Bose, Apple, and Yamaha.

Entrepreneurs that pursue a strategy like Dolby's take maintaining and protecting their intellectual property very seriously. Carefully conceived patents and trademarks, managed in combination with solid R&D, can create powerful defenses that allow a start-up to preserve bargaining power over long periods of time. This strategy dictates culture and capability choices: The start-up needs to invest not only in relevant R&D skills but also in smart and committed legal minds. The IP strategy has proved powerful not only in narrow cases like Dolby's but across whole industries, such as biotechnology; with leading technology platform players, including Qualcomm; and for market intermediaries, such as Getty Images.

THE DISRUPTION STRATEGY

This strategy is the polar opposite of an IP strategy. It involves a decision to compete directly with incumbents, emphasizing commercialization of the idea and the rapid growth of market share rather than control of the idea's development. Disruption entrepreneurs aim to redefine established value chains and the companies that dominate those chains. But the very nature of disruption permits others to follow. Thus the heart of this strategy is the ability to get ahead and stay ahead.

Although the word "disruption" connotes chaos, the entrepreneur's initial goal is in fact to avoid poking the beast and provoking a strong (and potentially fatal) response. The start-up strives to quickly build capabilities, resources, and customer loyalty so that when the incumbents finally wake up, the start-up is too far ahead for imitators to catch up.

For this reason, the initial choice of customers is usually a niche segment—typically one poorly served by incumbents and off their radar screen. This allows the start-up to establish credibility and explore (before anyone notices) new technologies that may have initial flaws but solid prospects for dramatic improvement. If they prove viable, these technologies are usually difficult for incumbents—whose capabilities and commitments are built around established technologies—to adopt.

The disruptive entrepreneur's identity projects hustle and verve. The start-up is staffed by the young and the hungry (and not just for ramen noodles). It doesn't fear the competitive war to come; rather, it's eager to engage. It must be lean and quick to respond. And it is intensely focused on growth.

Netflix is a poster child for this quadrant. Frustrated by movie-rental overdue fines, its founders, Marc Randolph and Reed Hastings, envisioned a solution that would leverage the then-emergent technology of DVDs. After testing their concept by sending a disc through the U.S. mail, they created a service in the late 1990s that allowed cinephiles—rather than mainstream consumers who simply wanted to watch the latest blockbuster—to receive and return DVDs that way. Netflix's strategy was to take advantage of the "long tail" of (low-cost) content and build a recommendation engine that would reinforce customer relationships, enabling the development of a new method of movie rental that would render the brick-and-mortar Blockbuster model obsolete. (Blockbuster initially dismissed Netflix as not serving mainstream customers in a timely manner but then saw the profitability of its stores drop and ultimately disappear.)

Rent the Runway is using the disruption playbook in its drive to reshape the women's high-end clothing market. Two Harvard MBAs, Jennifer Hyman and Jennifer Fleiss, founded the company in 2009 after identifying the challenge that fashion-oriented women faced in having to buy dresses that they might wear only once. Rent the Runway developed an online site offering aspirational women the option of renting rather than buying designer clothing and focused on solving the operational and logistical challenges of shipping dresses back and forth. Although the company has yet to displace Neiman Marcus and other more traditional players, whose focus is on wealthy haute couture customers seeking a personalized in-store experience, it has created a dedicated customer base that evangelizes the brand across social networks. Its extraordinary growth is testament to the power of execution in the face of less nimble incumbents.

THE VALUE CHAIN STRATEGY

Disruption is exciting; by comparison, a value chain strategy seems somewhat pedestrian. The start-up invests in commercialization and day-to-day competitive strength, rather than in controlling the new product and erecting entry barriers, but its focus is on fitting into the existing value chain rather than upending it.

A pedestrian approach can nevertheless create very lucrative businesses. Consider Foxconn, the Chinese electronics manufacturer, which is one of the few global companies that can bring new products from Apple and others to market at scale and on time. The identity of such corporations arises from competence rather than aggressive competition. And although value chain entrepreneurs are driven by the customers and technology of other companies, they focus on developing scarce talent and unique capabilities to become preferred partners.

The value chain strategy is available to most start-ups. While the online grocery business Webvan, founded in 1996, was trying to disrupt the supermarket industry, Peapod became the leading U.S. internet grocer by serving as a value-added complement to traditional retailers. (Webvan went bankrupt in 2001.)

An early partnership with a Chicago-area food supplier, Jewel-Osco, allowed Peapod to clarify who its ideal customers were (professional women) and what they valued (the ability to repeat an order on a regular basis and to schedule deliveries for certain times, among other things). Whereas Webvan's disruption strategy required reconceptualizing the entire grocery-shopping experience, Peapod's more-focused approach allowed it to develop a meaningful value proposition for customers who were willing to pay a premium for automated ordering and delivery, resulting in a profitable partnership with the supermarket chain Stop & Shop. Peapod gained the knowledge and developed the specialized capabilities with which it has led the online grocery business for nearly 20 years.

Entrepreneurs who adopt Peapod's approach create and capture value by focusing on a single "horizontal" layer of the value chain in which their expertise and capabilities are unrivaled. In probably no other entrepreneurial strategy does the founder's team play a more important role. In addition to hiring salespeople who are focused on final customers, or engineers who can improve the technical functioning of the product, it must be able to integrate innovators, business development leaders, and supply chain partners.

THE FOUR DECISIONS

At least four domains of decision making are crucial for every venture. Although any company will face additional choices that are particular to its context, a start-up that has not wrestled with at least these four decisions is unlikely to create and capture value on a sustainable basis. Amazon's story is illustrative.

CUSTOMERS

Identifying customers and understanding their needs is usually the first step in any go-to-market strategy. But the target customer is not necessarily the first customer—and it is important that you understand the relationship between the two. You validate your product by getting the right early adopters. Amazon's decision to initially target book readers was a strategic choice. Its leadership recognized that books were a beachhead from which the company could expand into other retail categories.

TECHNOLOGY

Technology and customer choices are interrelated. Amazon could have built a simple online ordering system to service existing stores. Instead its goal was to let consumers buy the long tail of books that could not be stocked physically at the local mall. Thus the company had to invest beyond transaction services to build a database and a search engine capable of guiding readers through millions rather than thousands of books.

IDENTITY, CULTURE, AND CAPABILITIES

Choices in this category should both create a narrative about what the company will stand for and communicate to all stakeholders what behavior to expect and what capabilities it will develop. Readers loved Amazon's offer, and Wall Street quickly saw how much money the company could make. But Amazon's founder, Jeff Bezos, wasn't building a bookstore. He wanted to create the "everything store." That would require that ordinary consumers trust they were getting a good deal, which meant that Amazon would focus relentlessly on lowering prices, despite pressure from investors for early returns.

COMPETITORS

Amazon defined its competition as other retailers and chose to compete aggressively by offering consumers more choice, greater reliability, and lower prices. In its early days it could easily have chosen to work with existing retailers—perhaps even defining them as customers. Competitors would have been other search and logistics service providers, and the company could have established itself as a premium service provider by adding more value for booksellers.

The start-up's capabilities must translate into enhanced differentiation or cost advantage for the established companies. And even if the innovation does enhance the competitive position of the overall value chain, the new venture can prevail only if other players in the chain are unable to replicate the value it has created.

THE ARCHITECTURAL STRATEGY

Whereas the value chain strategy is the domain of quiet achievers, entrepreneurs who choose and succeed with an architectural strategy tend to have very high public profiles. This strategy allows start-ups to both compete and achieve control, but it is out of reach for many if not most ideas and incredibly risky when it is feasible. This is the domain of Facebook and Google.

Entrepreneurs who follow an architectural strategy design an entirely new value chain and then control the key bottlenecks in it. They may not be the originators of an underlying innovation—search engines existed prior to Google, and social networks prior to Facebook—but they bring it to a mass market through careful alignment of customer, technology, and identity choices. Facebook committed early to not charging users, even though the dynamics of social media would lock them into the platform. Google adopted the motto "Don't Be Evil" so that it could achieve dominance without the pushback that had plagued other digital firms such as IBM and Microsoft. But in each case pivots were taken off the table. In other words, the risks for architectural entrepreneurs come from the fact that they may have only one shot at glory. (Remember the much-lamented Segway.)

It is perhaps not surprising that architectural entrepreneurs often end up trying to build platforms rather than products. Although platforms can be commercialized through the other strategies, if the core of a platform is closed, the entrepreneur may be able to control a new value chain.

Consider OpenTable, an online restaurant-reservation service founded in 1998 by Chuck Templeton. Motivated by the challenge of making a simple dinner reservation over the phone, Templeton hypothesized that in addition to offering a reservation platform, a successful online intermediary would have to solve the problem of restaurant-seating management. He decided to build systems that combined restaurant reservations with seating and management software, putting him in direct competition with established point-of-sale vendors such as IBM and NCR.

As Templeton recalls, OpenTable in its earliest days was "the one running wire through the rafters to get power and connectivity." To tip the market toward his start-up, he targeted the most influential restaurants first. "We were able to get the top 20 restaurants [in San Francisco]," he says, "and the next 50 would all want to be where those top 20 were. There began to be a critical mass on the website." Templeton reorganized the value chain of the dining industry so that the internal operations of restaurants were integrated into customers' first engagement with them: the reservation phase. OpenTable achieved control over valuable proprietary data on customer preferences and demand and established a hard-to-dislodge platform that is "table stakes" for a new restaurateur. This dominance underlay its $2.6 billion acquisition by Priceline in 2014.

Let's look now at how entrepreneurs can use the strategy compass to decide among the four basic approaches.

MAKING THE CHOICE

The first step is to fill as many of the quadrants of the compass as possible with strategic options. This is no simple task. It involves gathering additional information and experimenting to some degree (but commitments should be modest until a choice is made).

Particularly effective approaches for start-ups can be found in Eric Ries's *The Lean Startup,* Alexander Osterwalder and Yves Pigneur's *Business Model Generation,* and Bill Aulet's *Disciplined Entrepreneurship.* Whatever framework is chosen, however, it should involve an explicit process of hypothesis building and testing—an observation that was nicely made in "Bringing Science to the Art of Strategy," by A.G. Lafley, Roger L. Martin, Jan W. Rivkin, and Nicolaj Siggelkow (HBR, September 2012).

This process at a minimum yields crucial insight into stumbling blocks associated with particular paths within the compass. Some alternatives can be dismissed owing to lack of feasibility or lack of alignment with the capabilities of the founding team. In other cases, the requirements—in terms of capital, commitment, and momentum—will be clear, allowing the start-up to focus on them to make the chosen strategy work.

Once the alternatives have been identified, how should the entrepreneur actually make a choice? Let's go back to RapidSOS. As the founders debated the next steps for their idea—mobile-centric emergency-response systems—they used the compass to identify four strategies. As noted earlier, they could use an architectural strategy to replace the existing 911 system with an "Uber for ambulances." They could use an IP strategy to collaborate with existing players in the emergency-response sector. They could use a value chain strategy to work with insurance companies and other consumer-facing partners, becoming a feature for a corporate smartphone app. Or they could use a disruption strategy to focus on a narrow customer segment for whom emergency response is a priority—such as epileptics—and partner with patient advocacy groups to meet its needs.

For each compass quadrant the company identified which customers to target, which technologies to focus on, what identity to assume, and whom to compete with and how. All four paths looked plausible, which was a striking validation of the founders' idea. If only one viable vision of the future exists, the entrepreneur probably doesn't have much of a business to begin with.

Having several good options need not be paralyzing. Quite simply, entrepreneurs should choose the strategy that aligns best with the purpose they originally brought to the venture. The RapidSOS mission to improve services for specific patient groups led the team to focus with a high level of conviction on a disruption strategy. This commitment—which Martin and Horelik could communicate with passion and purpose—allowed them to win over patient groups and stakeholders throughout the emergency-response sector, enabling RapidSOS to roll out its technology to the broader market over two years.

The founding team does not just make the choice; it has to live the choice. Alignment between strategy and purpose is crucial for motivating founders and persuading early stakeholders to travel the chosen path. To be clear, making a choice requires commitment but does not foreclose all other paths forward. RapidSOS's decision to engage with both patient advocates and the emergency-response community meant that the start-up was unlikely to bypass traditional 911 systems—at least in the medium term. But the focus on patient advocacy groups encouraged end-user engagement, which over time generated meaningful collaboration opportunities and attracted investment from more-established players, including Motorola.

Still, every strategy affects possible future pivots, removing some and opening up others. A venture must be mindful of this so that it doesn't raise future costs but does enable opportunities to move from the start-up to the scale-up phase.

THE ENTREPRENEURIAL STRATEGY compass does not eliminate or minimize the uncertainty inherent in launching a start-up. What it does is provide a coherent framework for escaping the perceived realities of the existing environment and defining possible new environments to choose from. The word "choose" is critical here: When a start-up is competing with new products in the absence of a significant innovation, its success is largely determined by how its strategic choices are informed by the environment. Among established businesses, the winner is usually the company that understands the environment better. But entrepreneurs offering something significantly new have an opportunity to reshape the environment—perhaps, as with Dolby, to create a part of it that they will own or, as with Amazon, to create an altogether different reality. Which they choose is largely up to them. Our framework is designed to help them make that choice successfully and channel imagination and commitment toward the realization of their ideas.

HBR Reprint R1803B

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COUNTERPOINT

IT'S NOT ABOUT THE FRAMEWORK

WHAT MANY BUSINESS SCHOOLS TEACH HAS LITTLE TO DO WITH ENTREPRENEURIAL SUCCESS.

BY CARL SCHRAMM

Imagine that you're an entrepreneur at a crossroads. You've worked hard to develop a new platform, and you feel that it's time to take it to market. But the VC on your board says that your product needs at least three more months of development and that he will recommend further investment only if you define a clear go-to-market strategy and present a plan for implementing it. Should you follow his advice? Without empirical data on the track record of ventures similar to yours, it's impossible to know which course of action would be better for your start-up.

In his book *The Lean Startup,* drawn from his experience birthing a software company, Eric Ries tells readers that codesigning products with customers is a better path to success than writing a business plan. That complements a thesis proposed by Steve Blank and Bob Dorf in *The Startup Owner's Manual*: that every start-up's principal task is to search for a scalable opportunity—an entirely experiential learning process that is not amenable to a prearticulated strategy. Both books advise entrepreneurs to develop a "minimally viable product" in order to obtain customer feedback as early as possible.

Joshua Gans, Erin Scott, and Scott Stern argue that following the advice of Ries, Blank, and Dorf would usually be wrong, because the absence of a strategic framework for evaluating options leads to uninformed strategic choices. I disagree.

To explain why, I'll start by reflecting on how the study of entrepreneurship began.

THE ENTREPRENEURSHIP INDUSTRY

Until the 1980s no one really taught entrepreneurship, and business academics had no apparent interest in how companies actually came into existence. They focused on preparing students for careers in giant banking, manufacturing, transportation, and consumer products enterprises. Then came Bill Gates and Steve Jobs. Eager to emulate their success, a growing number of MBA students insisted on getting instruction in what was soon called entrepreneurship. (The word "entrepreneur" was just coming into common usage.)

The resulting curriculum, drawn from the disciplines of strategy and finance (venture capital was a new investment class), crystallized around a novel pedagogical exercise—namely, writing a business plan for an imagined start-up. Soon a format with common elements, reflecting the criteria applied by potential investors, emerged. Universities had found a new and popular area of instruction and one that allowed intercollegiate competitions of a sort. Today Rice University is home to the annual Super Bowl of business plans, which offers a purse of more than $3 million.

It's easy to understand the appeal of this approach. All of us, by nature, seek to reduce the risk of future events—an impulse that grows with the complexity of a project and the potential cost of failure. Developing a strategy and an action plan makes starting a business look more predictable and certain. What's more, it's not hard to argue that experimenting your way to success isn't applicable to most new ventures: Although the software and technology companies that inspired the lean start-up movement get a lot of attention, they account for no more than 3% of all start-ups. Launching a retail outfit to sell skateboards requires a store (or the digital infrastructure to support online sales), fixtures, inventory, a sales force, and advertising. It seems obvious that a venture like that requires a strategy and a plan.

If only it were that simple.

THE PROBLEM WITH PLANS

A deeply flawed assumption underlies the discipline of entrepreneurship as taught in many business schools. It is that a uniform logic can be applied to the process of starting a business—a logic that can be described and, if followed, will increase the likelihood of success for the start-up. But that assumption has never been properly tested: Although business historians have described the early years of a number of today's large companies, business academics never developed longitudinal data regarding how new ones come into being, detailed the common characteristics of start-ups, or described entrepreneurial behavior that could be replicated. Only recently have economists started to build such records.

Instead entrepreneurship scholars rely on case studies of successful start-ups. But those accounts are often highly suspect. Entrepreneurs don't commonly keep diaries and orderly documentary trails in real time, which means we must rely on ex post facto recitals that are riddled with confirmation and other biases. Furthermore, failed start-ups leave few records, and despite lore to the contrary, failed entrepreneurs are less likely to succeed with subsequent attempts. Thus we cannot establish in any credibly empirical way what some experts refer to as a "science of start-ups."

The evidence we do have suggests that business school orthodoxy is at best questionable. None of the companies for which MBAs traditionally trained, including Alcoa, Disney, GE, IBM, PepsiCo, P&G, Macy's, United Airlines, and Walmart, started with plans. Nor did iconic younger companies—Apple, Cisco, Facebook, Google, Nike, Uber, and Yahoo—to which today's entrepreneurs look. Research by Anthony K. Tjan and by

Julian Lange and colleagues suggests that plans make no statistical difference in start-ups' success. That may explain why only a few winners of business-plan competitions ever actually start companies. A student who had won $125,000 in three contests, along with a tuition-free MBA, once told me that the only business he would probably ever start was writing business plans.

Nor do I buy the argument that a "real" venture (as opposed to a digital one) can significantly reduce risk by simply having a business plan. Gans, Scott, and Stern suggest that Elon Musk's Tesla was a more successful launch than Shai Agassi's Better Place because the former involved more "deliberative, stepwise" planning. But the Tesla project was really a very risky "fat start-up," requiring enormous amounts of capital. The product couldn't be tested incrementally. Apart from a huge investment in engineering, Musk had to build a complex supply chain, an assembly facility, a dealership network, and a public-private partnership to ensure that the necessary charging stations existed. To do all that, he needed a plan of action. But the plan's existence would not have made a material difference to the basic gamble. It might have made his launch smoother but would not have made it much likelier to succeed.

THE NON-PLAN PLAN

The traditional business plan familiar to students in the 1990s and 2000s has ceded ground to other approaches. But these newer alternatives don't, it seems to me, represent much of an advance. Efforts by Alan Gleeson and Steve Blank to rebaptize business plans as "models" rest on a very fine distinction. And in *Business Model Generation,* Alexander Osterwalder and Yves Pigneur propose a process that has would-be founders creating a visual canvas of their imagined enterprise. They compare the process to composing a successful painting, in which a set of specified and necessary components are in balance—in this case, infrastructure, customer needs, channels, and finances. Another framework, Bill Aulet's "disciplined entrepreneurship," prescribes a path composed of 24 discrete steps that, if carefully followed, will increase the likelihood of a successful start. In the end, none of these efforts escape the linearity of the planning process; one or more steps serve as required precedents of others.

The entrepreneurial strategy compass advocated by Gans, Scott, and Stern is more of the same. The authors argue that newly forming businesses will benefit from a systematic evaluation of four competing go-to-market strategies: protecting the start-up's intellectual property, disrupting competitors, working within the existing value chain, or creating an entirely new value chain. It is sad that 30 years into a period we might consider "the entrepreneurial revolution," the advice academics hand out has progressed no further than this.

LEARNING BY DOING

In the absence of data permitting prescriptive advice, the entrepreneur really has no alternative but to learn by doing—a practice rooted in phenomenology, the school of philosophical thought that claims as proponents the likes of Hegel, Heidegger, and Derrida. Phenomenology is a reaction to the Cartesian assumptions that underlie conventional strategic analysis—and the linear way we think about business.

According to phenomenology, people learn about the world through their experiences of it. Rather than analyze past data, they create new data of their own, and on the basis of what they discover they engage in new experiences, building up an understanding of their world as they proceed. It's an approach taken by one of the world's most successful businesses, Apple, which uses a learning-by-doing process called challenge-based learning in its Classrooms of Tomorrow project. This trial-and-error format has been particularly effective in starting app-based businesses.

It is also the only practical way for an entrepreneur to proceed. Predicting consumer reaction, a key determinant of success, is nearly impossible without trial and error, because expert opinion on what is likely to catch on consistently fails. How else to explain the 1:7 ratio of successful investments in venture capital funds, many of which have four or five decades' worth of experience on which to draw? When the Segway was unveiled on national television, in 2001, experts hailed it as a revolution in personal transportation that would change cities by, among other things, making parking garages obsolete. Venture investors showered the idea with money. Today the innovation they declared would be "bigger than the Internet" is used mostly by security guards in shopping malls.

Ultimately, entrepreneurs know that starting a business is fraught with risk only they can manage. Their task is to make decision after decision in unforeseeable circumstances. As events (often determined by earlier decisions) unfold, they present opportunities or dangers that cannot be evaluated before making a choice. Launching and managing a start-up will never be reducible to a strategic framework, let alone run smoothly according to a preestablished plan. Ted Farnsworth, a serial entrepreneur who is now the chairman of Helios and Matheson, which owns the discount theater-subscription service MoviePass, told me, "For any new company there is only one thing to do: devise a new product and just put it out there. Then you can answer the only two questions that count: Are there customers? How much will they pay? As an entrepreneur, I'm constantly relearning the answers to these questions."

Recall your dilemma as a hypothetical entrepreneur at the beginning of this essay. In 1998 Michael Levin, who had built Titan Steel into a global leader in the buying and selling of metals, launched a digital B2B trading platform. Before the launch he was forced by top-shelf venture investors to write a business plan for his start-up. But at a certain point the business began to struggle, and Levin decided he needed to pivot from the plan. He met such stiff resistance that he decided to buy out the investors to rescue his company. He wryly concluded, "Making a successful company requires an intimate tango with customers, not a tight grip on a business plan."

HBR Reprint R1803B

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ROUNDTABLE

A CONVERSATION WITH NIRAJ SHAH, BIJAN SABET, AND JENNIFER LUM

"CREATE SOMETHING AND START SELLING IT"

Over the past decade, lean start-up methodology, which prizes early customer feedback, experimentation, and iteration—has emerged as the approach of choice. To get a sense of how entrepreneurs and venture capitalists view the framework offered in "Strategy for Start-Ups," which recommends a more formal approach to strategy development, the HBR senior editors Daniel McGinn and Walter Frick discussed these ideas with three start-up veterans. Niraj Shah is a cofounder of the online furniture retailer Wayfair, which was launched in 2002 and had its IPO in 2014. Bijan Sabet is a cofounder of Spark Capital and an early investor in Twitter, Tumblr, Foursquare, and Trello. Jennifer Lum is building her fifth start-up (four have been acquired by public companies) and is the COO of Forge.AI, a company that structures data for intelligent machines. Edited excerpts follow.

PHOTOCOLLAGE; PHOTOGRAPHY BY ØYVIND HOLMSTAD

HBR: How important is it for an entrepreneur to think through and nail down the major strategic choices before getting too far along in execution?

SHAH: The problem is that time is not your friend when you're trying to be innovative. You need to create something that's sellable to someone and start selling it. From that you'll gain some momentum, learn what the market actually wants, and start iterating toward more sales in that segment or additional segments, or more features, products, and so forth. For example, my cofounder and I started a website that sold only TV and stereo stands. We got some early traction and then began expanding into other lines of furniture. Setting out to build a full-line furniture website would have been much harder. So instead of doing excessive planning, you're better off getting something accomplished and building on that momentum.

SABET: I agree with that. The four-part framework described in "Strategy for Start-Ups" is not how most start-ups that we see approach the process. Successful start-ups come from the vision of founders and their insatiable drive to build something they want to see in the world. The path to get there is delighting the customer. Focusing on strategy can lead to a kind of rudderless analysis of which path to take. I don't mean that approach can't succeed—it's just rare that it does succeed.

Do VCs sometimes force start-ups to choose a strategy too quickly?

LUM: Start-ups are resource constrained, even if they're venture backed. They need to pick a starting point and strive for aggressive growth. It's unwise for them to keep searching for the best possible strategy, because they may never land on it. When entrepreneurs and investors work together, it's common for them to agree on milestones—for a quarter, for the year, or before the next round of funding. Both sides want to see the start-up hitting or beating those milestones. There is time pressure to demonstrate growth and progress, but I don't believe it drives start-ups to permanently close strategic doors.

Do founders pay too little attention to partnering with incumbents or exploiting intellectual property?

SHAH: The only reason that many start-ups have an opportunity is that incumbents are slow to do something. And often what you have on day one is not incredibly hard for an incumbent to copy if it's so inclined. So I'm not convinced that a partnering strategy will work for many start-ups—at least not those in IT.

SABET: The only early-stage start-ups I've seen successfully partnering with incumbents are government-oriented technology companies—such as iRobot, which found success working with the military.

SHAH: Another example is Big Pharma's licensing deals with biotech start-ups. But in those industries incumbents have outsourced entire functions, such as R&D.

SABET: The IP strategy would also be very challenging for early-stage start-ups, which can't deal with the expense of patent litigation. Companies that get venture funding have 18 to 24 months of initial runway, and every equity dollar is precious. Simply applying for a patent costs $10,000 to $20,000 if you're lucky—and that's just the legal work. Defending a patent or creating a business around one costs millions of dollars. When we meet a founder whose slide deck says his strategic advantage is intellectual property, that's a negative indicator.

Do entrepreneurs and VCs sometimes follow fads in business models and strategies?

LUM: There is some faddishness. For instance, breakout hits in consumer tech (such as ephemeral messaging or live video) can cause frenzied activity among VCs and entrepreneurs, and if a VC firm hasn't yet made a bet in a hot category, it may feel pressure to do so. But more broadly, I think what you're describing is awareness of the model companies and their performance metrics. If your start-up is in social networking or the sharing economy, investors want to see that you're on a believable, scalable path like that of the established giants, Facebook and Airbnb—and that once you've scaled, you can establish moats to defend the business.

Do start-ups spend too little time thinking about moats?

LUM: You need to ask, If our business gets to scale, what will be the most valuable proprietary parts of the company? The novelty of the technology? The unique way we acquire customers? The unique data assets we have and can monetize? Most entrepreneurs and VCs do think hard about the best way to create enterprise value and whether it will be defensible several years out.

Is it a valid criticism that the lean start-up movement overemphasized experimentation and iteration? Should founders spend more time planning?

SABET: You have to look at the movement in context. It was a reaction to the wildly dysfunctional Web 1.0 ecosystem. VCs were investing tens of millions of dollars in start-ups that hadn't received any customer feedback. Companies were spending their entire first rounds on infrastructure and web stack development. Against that backdrop, the lean start-up message—that you need to begin getting customer feedback quickly—was extremely useful. It's the right approach for most IT start-ups. But even today lean start-up isn't right for some companies. We've backed one called Cruise Automation, which has the leading technology for autonomous vehicles. That didn't yet have a market, so we knew it would be a very slow build. We believe in the team and the vision, but the technology was very immature when we backed it, and there was no market to test it. So the company requires a different approach.

Jennifer, can you describe how the strategy evolved at one of your start-ups?

LUM: The last company I started was called Adelphic. We formed it with the idea of creating a platform that could add value to both sides of the advertising market, the supply side and the demand side. When we started engaging with customers, we gained traction much more rapidly on the demand side. Since we had limited resources and had to demonstrate success as rapidly as possible, we decided to focus exclusively on the demand side. We didn't abandon our hopes to someday service the other side, but we needed to allocate resources appropriately. Today the company has a robust platform in the market, and it's still focused on the demand side.

Has pivoting to a new strategy become so commonplace that entrepreneurs underestimate its costs?

LUM: Pivots aren't easy, and they shouldn't always be celebrated. In the best cases, after spending time in the market you land on something even better than your original idea and you can successfully pivot to that. In other cases, the company may have started with a lack of customer development, the wrong team, or poor market timing. Pivoting out of challenging situations can require a complete recapitalization of your company and reconfiguration of your team—it's almost like shutting down your business and moving forward with a brand-new idea. That's tough and expensive.

SABET: I agree that a pivot is never pain-free. But if you backed the founder for a good reason, you often see the benefits of one. When we backed Warby Parker, it was going to be an online eyeglass company. After a year or so it began experimenting with physical stores. That worked really well, so now it's opening up stores very quickly. If the company had pitched us originally with plans for brick-and-mortar stores, we would have been less likely to back it. Twitter, another company we backed, started out as a podcasting company. Probably the hardest pivot we've seen is Slack. Stewart Butterfield raised more than $10 million to build an online gaming company, but it wasn't working. Meanwhile, the company had built this internal communication tool, so he pivoted toward that, and we're grateful he did. Deciding to pivot is hard, but when a founder says, "We're going in the wrong direction," we never dismiss that conversation.

But wouldn't Twitter have been better if it focused on 140-character social messages at the outset, or Slack if it hadn't wasted years building games?

SHAH: In my view, you often have to do the first thing to get to the second thing.

Are too many start-ups focused on disruption as a strategy?

SHAH: People describe Wayfair as disruptive, but I tend not to use that term. What is a disruption? It can come from anywhere—from an incumbent, from a new entry. The only question is whether you're offering more value to the person buying your good or service. "Disruption" is too much of a buzzword.

SABET: We tend to think about "market creation" versus "market disruption," and new experiences—the former—tend to get our imagination spinning. Using an app to hail a ride with your phone. Donning a headset and going into a virtual world. It's more interesting to think about businesses that deliver experiences that haven't been possible before.

What else do you wish founders knew about strategy?

SHAH: Being strategic is important, but it's best done with a very small allocation of your time. Maybe put 1% into strategy and 99% into execution. When you're early-stage, you'll learn the most by just being out there. Go do something. Have a conversation. Try to sell something. I guarantee you will have nothing to show for it if you just sit there. For start-ups, being prone to action is good.

LUM: When founders work on customer development, it's important that they focus not only on the current state of the market but also on how it may evolve. This is especially true if they aren't domain experts or don't have experience in their target market. Don't just get feedback from customers about current pain points and how your solution can address their immediate needs. Try to gain a sense of where the market is moving so that you can develop a point of view about how it and the competition may look five years down the road. That crucial information can help inform your strategy and product road map.

SABET: I'd suggest that founders think not only about *how* but also about *why*. There's a gravitational pull toward starting companies right now. The one question I often ask first-time founders is, Why are you starting this company? For me, that opens a really interesting conversation—one that's far more instructive than whether their strategy is B2B, B2C, IP, or whatever. A start-up has some tough days ahead, so it's useful to do some soul-searching, think about purpose, and reflect on why you want to do this.

HBR Reprint R1803B

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NIRAJ SHAH

JENNIFER LUM

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THE SURPRISING POWER OF QUESTIONS

IT GOES FAR BEYOND EXCHANGING INFORMATION.

BY ALISON WOOD BROOKS AND LESLIE K. JOHN

PHOTOGRAPHY BY SUN LEE

Much of an executive's workday is spent asking others for information—requesting status updates from a team leader, for example, or questioning a counterpart in a tense negotiation. Yet unlike professionals such as litigators, journalists, and doctors, who are taught how to ask questions as an essential part of their training, few executives think of questioning as a skill that can be honed—or consider how their own answers to questions could make conversations more productive.

That's a missed opportunity. Questioning is a uniquely powerful tool for unlocking value in organizations: It spurs learning and the exchange of ideas, it fuels innovation and performance improvement, it builds rapport and trust among team members. And it can mitigate business risk by uncovering unforeseen pitfalls and hazards.

IN BRIEF

THE PROBLEM
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Questioning is a powerful tool for unlocking value in companies: It spurs learning and the exchange of ideas, it fuels innovation and better performance, it builds trust among team members. And it can mitigate business risk by uncovering unforeseen pitfalls and hazards.

THE APPROACH
Several techniques can enhance the power and efficacy of queries: Favor follow-up questions, know when to keep questions open-ended, get the sequence right, use the right tone, and pay attention to group dynamics.

For some people, questioning comes easily. Their natural inquisitiveness, emotional intelligence, and ability to read people put the ideal question on the tip of their tongue. But most of us don't ask enough questions, nor do we pose our inquiries in an optimal way.

The good news is that by asking questions, we naturally improve our emotional intelligence, which in turn makes us better questioners—a virtuous cycle. In this article, we draw on insights from behavioral science research to explore how the way we frame questions and choose to answer our counterparts can influence the outcome of conversations. We offer guidance for choosing the best type, tone, sequence, and framing of questions and for deciding what and how much information to share to reap the most benefit from our interactions, not just for ourselves but for our organizations.

DON'T ASK, DON'T GET

"Be a good listener," Dale Carnegie advised in his 1936 classic *How to Win Friends and Influence People.* "Ask questions the other person will enjoy answering." More than 80 years later, most people still fail to heed Carnegie's sage advice. When one of us (Alison) began studying conversations at Harvard Business School several years ago, she quickly arrived at a foundational insight: People don't ask enough questions. In fact, among the most common complaints people make after having a conversation, such as an interview, a first date, or a work meeting, is "I wish [s/he] had asked me more questions" and "I can't believe [s/he] didn't ask me any questions."

Why do so many of us hold back? There are many reasons. People may be egocentric—eager to impress others with their own thoughts, stories, and ideas (and not even think to ask questions). Perhaps they are apathetic—they don't care enough to ask, or they anticipate being bored by the answers they'd hear. They may be overconfident in their own knowledge and think they already know the answers (which sometimes they do, but usually not). Or perhaps they worry that they'll ask the wrong question and be viewed as rude or incompetent. But the biggest inhibitor, in our opinion, is that most people just don't understand how beneficial good questioning can be.

If they did, they would end far fewer sentences with a period—and more with a question mark.

Dating back to the 1970s, research suggests that people have conversations to accomplish some combination of two major goals: information exchange (learning) and impression management (liking). Recent research shows that asking questions achieves both. Alison and Harvard colleagues Karen Huang, Michael Yeomans, Julia Minson, and Francesca Gino scrutinized thousands of natural conversations among participants who were getting to know each other, either in online chats or on in-person speed dates. The researchers told some people to ask many questions (at least nine in 15 minutes) and others to ask very few (no more than four in 15 minutes). In the online chats, the people who were randomly assigned to ask many questions were better liked by their conversation partners and learned more about their partners' interests. For example, when quizzed about their partners' preferences for activities such as reading, cooking, and exercising, high question askers were more likely to be able to guess correctly. Among the speed daters, people were more willing to go on a second date with partners who asked more questions. In fact, asking just one more question on each date meant that participants persuaded one additional person (over the course of 20 dates) to go out with them again.

Questions are such powerful tools that they can be beneficial—perhaps particularly so—in circumstances when question asking goes against social norms. For instance, prevailing norms tell us that job candidates are expected to answer questions during interviews. But research by Dan Cable, at the London Business School, and Virginia Kay, at the University of North Carolina, suggests that most people excessively self-promote during job interviews. And when interviewees focus on selling themselves, they are likely to forget to ask questions—about the interviewer, the organization, the work—that would make the interviewer feel more engaged and more apt to view the candidate favorably and could help the candidate predict whether the job would provide satisfying work. For job candidates, asking questions such as "What am I not asking you that I should?" can signal competence, build rapport, and unlock key pieces of information about the position.

Most people don't grasp that asking a lot of questions unlocks learning and improves interpersonal bonding. In Alison's studies, for example, though people could accurately recall how many questions had been asked in their conversations, they didn't intuit the link between questions and liking. Across four studies, in which participants were engaged in conversations themselves or read transcripts of others' conversations, people tended not to realize that question asking would influence—or had influenced—the level of amity between the conversationalists.

THE NEW SOCRATIC METHOD

The first step in becoming a better questioner is simply to ask more questions. Of course, the sheer number of questions is not the only factor that influences the quality of a conversation: The type, tone, sequence, and framing also matter.

In our teaching at Harvard Business School, we run an exercise in which we instruct pairs of students to have a conversation. Some students are told to ask as few questions as possible, and some are instructed to ask as many as possible. Among the low-low pairs (both students ask a minimum of questions), participants generally report that the experience is a bit like children engaging in parallel play: They exchange statements but struggle to initiate an interactive, enjoyable, or productive dialogue. The high-high pairs find that too many questions can also create a stilted dynamic. However, the high-low pairs' experiences are mixed. Sometimes the question asker learns a lot about her partner, the answerer feels heard, and both

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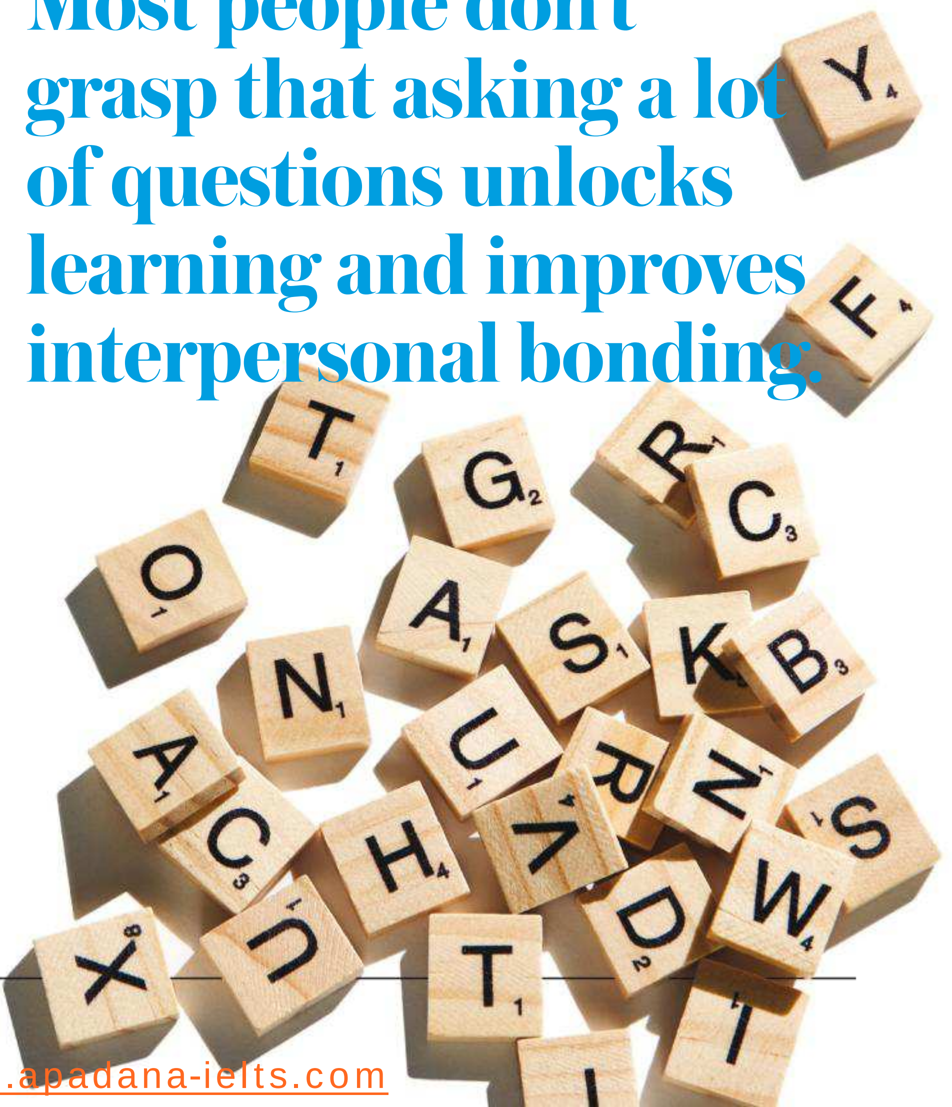

come away feeling profoundly closer. Other times, one of the participants may feel uncomfortable in his role or unsure about how much to share, and the conversation can feel like an interrogation.

Our research suggests several approaches that can enhance the power and efficacy of queries. The best approach for a given situation depends on the goals of the conversationalists—specifically, whether the discussion is cooperative (for example, the duo is trying to build a relationship or accomplish a task together) or competitive (the parties seek to uncover sensitive information from each other or serve their own interests), or some combination of both. (See the sidebar "Conversational Goals Matter.") Consider the following tactics.

Favor follow-up questions. Not all questions are created equal. Alison's research, using human coding and machine learning, revealed four types of questions: introductory questions ("How are you?"), mirror questions ("I'm fine. How are you?"), full-switch questions (ones that change the topic entirely), and follow-up questions (ones that solicit more information). Although each type is abundant in natural conversation, follow-up questions seem to have special power. They signal to your conversation partner that you are listening, care, and want to know more. People interacting with a partner who asks lots of follow-up questions tend to feel respected and heard.

During tense encounters, asking tough questions first can make people more willing to open up.

An unexpected benefit of follow-up questions is that they don't require much thought or preparation—indeed, they seem to come naturally to interlocutors. In Alison's studies, the people who were told to ask more questions used more follow-up questions than any other type without being instructed to do so.

Know when to keep questions open-ended. No one likes to feel interrogated—and some types of questions can force answerers into a yes-or-no corner. Open-ended questions can counteract that effect and thus can be particularly useful in uncovering information or learning something new. Indeed, they are wellsprings of innovation—which is often the result of finding the hidden, unexpected answer that no one has thought of before.

A wealth of research in survey design has shown the dangers of narrowing respondents' options. For example, "closed" questions can introduce bias and manipulation. In one study, in which parents were asked what they deemed "the most important thing for children to prepare them in life," about 60% of them chose "to think for themselves" from a list of response options. However, when the same question was asked in an open-ended format, only about 5% of parents spontaneously came up with an answer along those lines.

Of course, open-ended questions aren't always optimal. For example, if you are in a tense negotiation or are dealing with people who tend to keep their cards close to their chest, open-ended questions can leave too much wiggle room, inviting them to dodge or lie by omission. In such situations, closed questions work better, especially if they are framed correctly. For example, research by Julia Minson, the University of Utah's Eric VanEpps, Georgetown's Jeremy Yip, and Wharton's Maurice Schweitzer indicates that people are less likely to lie if questioners make pessimistic assumptions ("This business will need some new equipment soon, correct?") rather than optimistic ones ("The equipment is in good working order, right?").

Sometimes the information you wish to ascertain is so sensitive that direct questions won't work, no matter how thoughtfully they are framed. In these situations, a survey tactic can aid discovery. In research Leslie conducted with Alessandro Acquisti and George Loewenstein of Carnegie Mellon University, she found that people were more forthcoming when requests for sensitive information were couched within another task—in the study's case, rating the ethicality of antisocial behaviors such as cheating on one's tax return or letting a drunk friend drive home. Participants were asked to rate the ethicality using one scale if they had engaged in a particular behavior and another scale if they hadn't—thus revealing which antisocial acts they themselves had engaged in. Although this tactic may sometimes prove useful at an organizational level—we can imagine that managers might administer a survey rather than ask workers directly about sensitive information such as salary expectations—we counsel restraint in using it. If people feel that you are trying to trick them into revealing something, they may lose trust in you, decreasing the likelihood that they'll share information in the future and potentially eroding workplace relationships.

Get the sequence right. The optimal order of your questions depends on the circumstances. During tense encounters, asking tough questions first, even if it feels socially awkward to do so, can make your conversational partner more willing to open up. Leslie and her coauthors found that people are more willing to reveal sensitive information when questions are asked in a decreasing order of intrusiveness. When a question asker begins with a highly sensitive question—such as "Have you ever had a fantasy of doing something terrible to someone?"—subsequent questions, such as "Have you ever called in sick to work when you were perfectly healthy?" feel, by comparison, less intrusive, and thus we tend to be more forthcoming. Of course, if the first question is *too* sensitive, you run the risk of offending your counterpart. So it's a delicate balance, to be sure.

If the goal is to build relationships, the opposite approach—opening with less sensitive questions and escalating slowly—seems to be most effective. In a classic set of studies (the results of which went viral following a write-up in the "Modern Love" column of the *New York Times*), psychologist Arthur Aron recruited strangers to come to the lab, paired them up, and gave them a list of questions. They were told to work their way through the list, starting with relatively shallow inquiries and progressing to more self-revelatory ones, such as "What is your biggest regret?" Pairs in the control group were asked simply to interact with each other. The pairs who followed the prescribed structure liked each other more than the control pairs. This effect is so strong that it has been formalized in a task called "the relationship closeness induction," a tool used by researchers to build a sense of connection among experiment participants.

Good interlocutors also understand that questions asked previously in a conversation can influence future queries. For example, Norbert Schwarz, of the University of Southern California, and his coauthors found that when the question "How satisfied are you with your life?" is followed by the question "How satisfied are you with your marriage?" the answers were highly correlated: Respondents who reported being satisfied with their life also said they were satisfied with their marriage. When asked the questions in this order, people implicitly interpreted that life satisfaction "ought to be" closely tied to marriage. However, when the same questions were asked in the opposite order, the answers were less closely correlated.

Use the right tone. People are more forthcoming when you ask questions in a casual way, rather than in a buttoned-up, official tone. In one of Leslie's studies, participants were posed a series of sensitive questions in an online survey. For one group of participants, the website's user interface looked fun and frivolous; for another group, the site looked official. (The control group was presented with a neutral-looking site.) Participants were about twice as likely to reveal sensitive information on the casual-looking site than on the others.

People also tend to be more forthcoming when given an escape hatch or "out" in a conversation. For example, if they are told that they can change their answers at any point, they tend to open up more—even though they rarely end up making changes. This might explain why teams and groups find brainstorming sessions so productive. In a whiteboard setting, where anything can be erased and judgment is suspended, people are more likely to answer questions honestly and say things they otherwise might not. Of course, there will be times when an off-the-cuff approach is inappropriate. But in general, an overly formal tone is likely to inhibit people's willingness to share information.

THE POWER OF QUESTIONS IN SALES

There are few business settings in which asking questions is more important than sales. A recent study of more than 500,000 business-to-business sales conversations—over the phone and via online platforms—by tech company Gong.io reveals that top-performing salespeople ask questions differently than their peers.

Consistent with past research, the data shows a strong connection between the number of questions a salesperson asks and his or her sales conversion rate (in terms of both securing the next meeting and eventually closing the deal). This is true even after controlling for the gender of the salesperson and the call type (demo, proposal, negotiation, and so on). However, there is a point of diminishing returns. Conversion rates start to drop off after about 14 questions, with 11 to 14 being the optimal range.

The data also shows that top-performing salespeople tend to scatter questions throughout the sales call, which makes it feel more like a conversation than an interrogation. Lower performers, in contrast, frontload questions in the first half of the sales call, as if they're making their way through a to-do list.

Just as important, top salespeople listen more and speak less than their counterparts overall. Taken together, the data from Gong.io affirms what great salespeople intuitively understand: When sellers ask questions rather than just make their pitch, they close more deals.

CONVERSATIONAL GOALS MATTER

Conversations fall along a continuum from purely competitive to purely cooperative. For example, discussions about the allocation of scarce resources tend to be competitive; those between friends and colleagues are generally cooperative; and others, such managers' check-ins with employees, are mixed—supportive but also providing feedback and communicating expectations. Here are some challenges that commonly arise when asking and answering questions and tactics for handling them.

COMPETITIVE CONVERSATIONS

WHEN YOU'RE ASKING

CHALLENGE
Your conversational partner is reluctant to share information and may even lie.

TACTICS
Ask direct or "yes or no" questions to avoid evasive answers.

Ask detailed follow-up questions (even if they're redundant) to pry out more information.

Frame tough questions using pessimistic assumptions ("We've experienced some headwinds in sales, right?") to reduce the likelihood that respondents will lie.

Ask the most sensitive question first. Subsequent questions will feel less intrusive, making your partner more forthcoming.

WHEN YOU'RE ANSWERING

CHALLENGE
Answering questions could put you at a strategic disadvantage.

TACTICS
Prepare: Think in advance about the information you want to keep private to avoid answering impulsively.

Dodge the issue by answering a similar question you'd prefer to have been asked.

Deflect and gain control of the conversation by posing a question in return.

Consider when to share negative information—rather than refusing to answer—to build trust.

COOPERATIVE CONVERSATIONS

WHEN YOU'RE ASKING

CHALLENGE
Friendly colleagues may shy away from conflict or hesitate to share bad news.

TACTICS
Ask open-ended questions ("If you were to play devil's advocate, what would you say?") to draw out negative feedback.

Begin with the least-sensitive questions to build rapport, and escalate slowly.

As in competitive contexts, frame tough questions using negative assumptions.

WHEN YOU'RE ANSWERING

CHALLENGE
We forget to focus on making conversations productive and delightful, or we speak too freely.

TACTICS
Avoid droning on and on. Use energy, humor, and storytelling to engage your partners.

Avoid talking too much about yourself, and remember to ask questions of others.

Deflect tough questions by answering with another question or a joke.

Pay attention to group dynamics. Conversational dynamics can change profoundly depending on whether you're chatting one-on-one with someone or talking in a group. Not only is the willingness to answer questions affected simply by the presence of others, but members of a group tend to follow one another's lead. In one set of studies, Leslie and her coauthors asked participants a series of sensitive questions, including ones about finances ("Have you ever bounced a check?") and sex ("While an adult, have you ever felt sexual desire for a minor?"). Participants were told either that most others in the study were willing to reveal stigmatizing answers or that they were unwilling to do so. Participants who were told that others had been forthcoming were 27% likelier to reveal sensitive answers than those who were told that others had been reticent. In a meeting or group setting, it takes only a few closed-off people for questions to lose their probing power. The opposite is true, too. As soon as one person starts to open up, the rest of the group is likely to follow suit.

Group dynamics can also affect how a question asker is perceived. Alison's research reveals that participants in a conversation enjoy being asked questions and tend to like the people asking questions more than those who answer them. But when third-party observers watch the same conversation unfold, they prefer the person who answers questions. This makes sense: People who mostly ask questions tend to disclose very little about themselves or their thoughts. To those listening to a conversation, question askers may come across as defensive, evasive, or invisible, while those answering seem more fascinating, present, or memorable.

THE BEST RESPONSE

A conversation is a dance that requires partners to be in sync—it's a mutual push-and-pull that unfolds over time. Just as the way we ask questions can facilitate trust and the sharing of information—so, too, can the way we answer them.

Answering questions requires making a choice about where to fall on a continuum between privacy and transparency. Should we answer the question? If we answer, how forthcoming should we be? What should we do when asked a question that, if answered truthfully, might reveal a less-than-glamorous fact or put us in a disadvantaged strategic position? Each end of the spectrum—fully opaque and fully transparent—has benefits and pitfalls. Keeping information private can make us feel free to experiment and learn. In negotiations, withholding sensitive information (such as the fact that your alternatives are weak) can help you secure better outcomes. At the same time, transparency is an essential part of forging meaningful connections. Even in a negotiation context, transparency can lead to value-creating deals; by sharing information, participants can identify elements that are relatively unimportant to one party but important to the other—the foundation of a win-win outcome.

And keeping secrets has costs. Research by Julie Lane and Daniel Wegner, of the University of Virginia, suggests that concealing secrets during social interactions leads to the intrusive recurrence of secret thoughts, while research by Columbia's Michael Slepian, Jinseok Chun, and Malia Mason shows that keeping secrets—even outside of social interactions—depletes us cognitively, interferes with our ability to concentrate and remember things, and even harms long-term health and well-being.

In an organizational context, people too often err on the side of privacy—and underappreciate the benefits of transparency. How often do we realize that we could have truly bonded with a colleague only after he or she has moved on to a new company? Why are better deals often uncovered after the ink has dried, the tension has broken, and negotiators begin to chat freely?

To maximize the benefits of answering questions—and minimize the risks—it's important to decide before a conversation begins what information you want to share and what you want to keep private.

Deciding what to share. There is no rule of thumb for how much—or what type—of information you should disclose. Indeed, transparency is such a powerful bonding agent that sometimes it doesn't matter what is revealed—even information that reflects poorly on us can draw our conversational partners closer. In research Leslie conducted with HBS collaborators Kate Barasz and Michael Norton, she found that most people assume that it would be less damaging to refuse to answer a question that would reveal negative information—for example, "Have you ever been reprimanded at work?"—than to answer affirmatively. But this intuition is wrong. When they asked people to take the perspective of a recruiter and choose between two candidates (equivalent except for how they responded to this question), nearly 90% preferred the candidate who "came clean" and answered the question. Before a conversation takes place, think carefully about whether refusing to answer tough questions would do more harm than good.

Deciding what to keep private. Of course, at times you and your organization would be better served by keeping your cards close to your chest. In our negotiation classes, we teach strategies for handling hard questions without lying. Dodging, or answering a question you *wish* you had been asked, can be effective not only in helping you protect information you'd rather keep private but also in building a good rapport with your conversational partner, especially if you speak eloquently. In a study led by Todd Rogers, of Harvard's Kennedy School, participants were shown clips of political candidates responding to questions by either answering them or dodging them. Eloquent dodgers were liked more than ineloquent answerers, but only when their dodges went undetected. Another effective strategy is deflecting, or answering a probing question with another question or a joke. Answerers can use this approach to lead the conversation in a different direction.

"QUESTION EVERYTHING," Albert Einstein famously said. Personal creativity and organizational innovation rely on a willingness to seek out novel information. Questions and thoughtful answers foster smoother and more-effective interactions, they strengthen rapport and trust, and lead groups toward discovery. All this we have documented in our research. But we believe questions and answers have a power that goes far beyond matters of performance. The wellspring of all questions is wonder and curiosity and a capacity for delight. We pose and respond to queries in the belief that the magic of a conversation will produce a whole that is greater than the sum of its parts. Sustained personal engagement and motivation—in our lives as well as our work—require that we are always mindful of the transformative joy of asking and answering questions.

HBR Reprint R1803C

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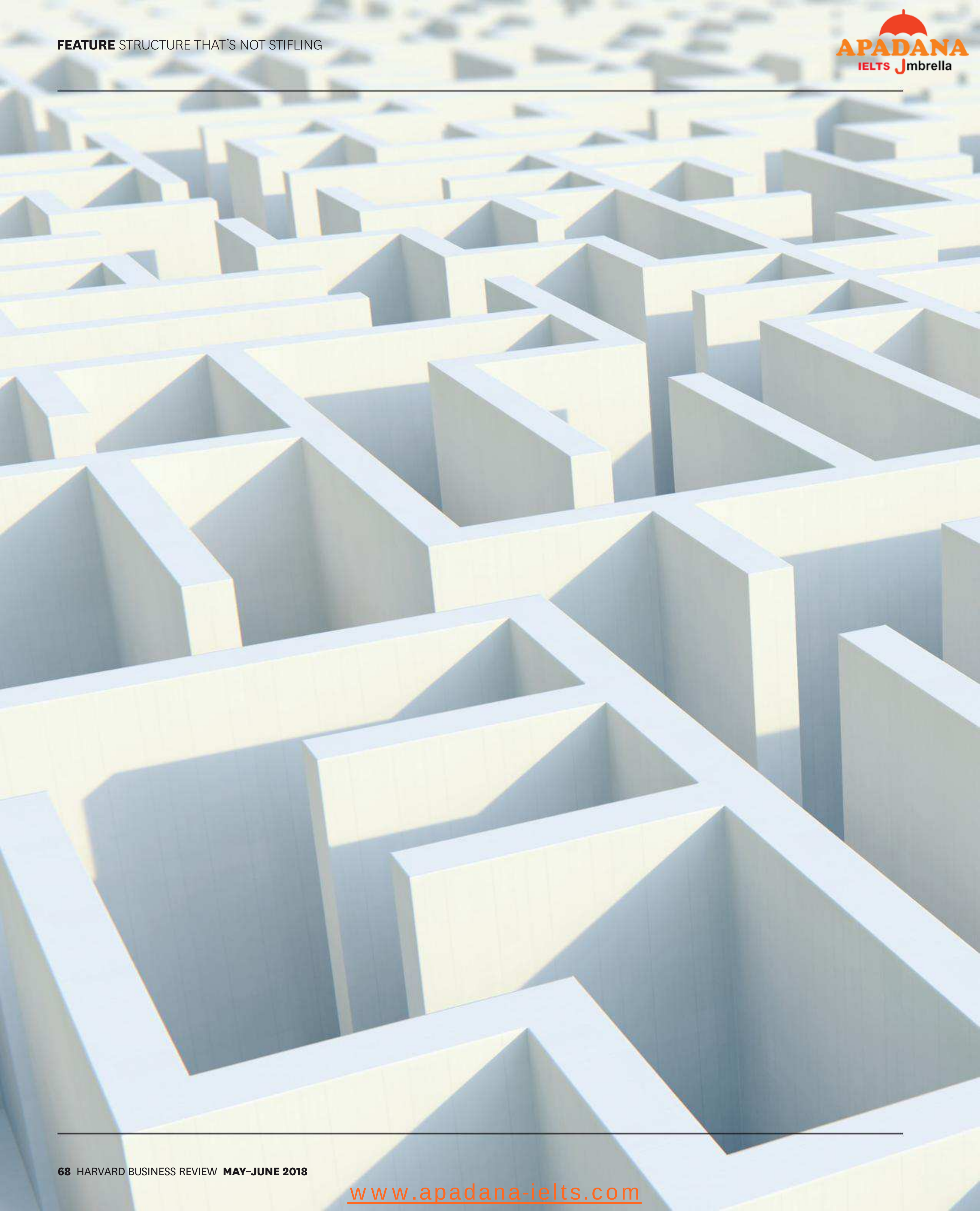

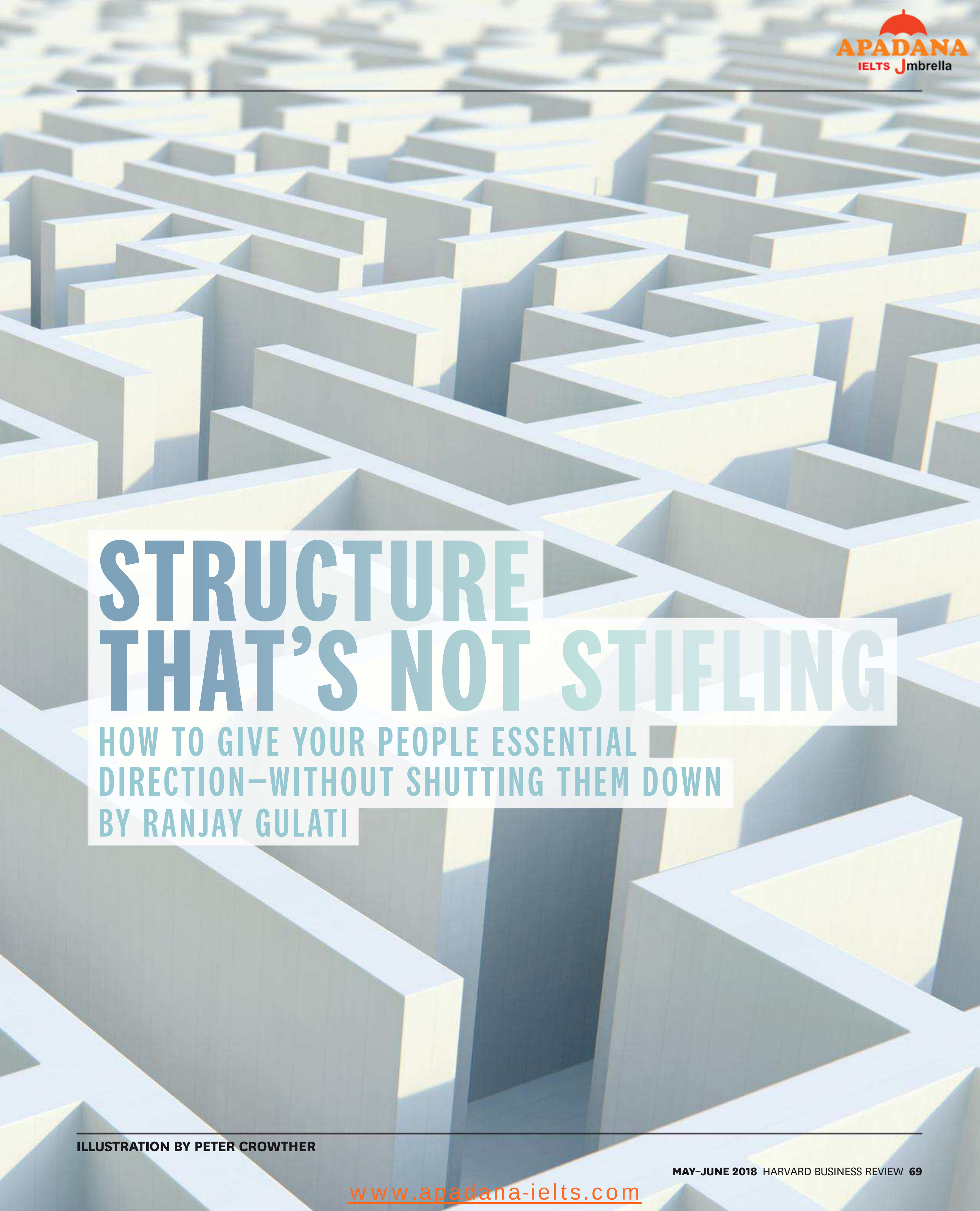

STRUCTURE THAT'S NOT STIFLING

HOW TO GIVE YOUR PEOPLE ESSENTIAL DIRECTION—WITHOUT SHUTTING THEM DOWN

BY RANJAY GULATI

ILLUSTRATION BY PETER CROWTHER

IN BRIEF

THE PROBLEM

Most leaders view employee freedom and operational control as antagonists in a tug-of-war that can have only one winner. So they tend to pour their resources into regulating workers' behavior—often unknowingly putting a damper on commitment, innovation, and performance.

THE SOLUTION

By giving people a clear sense of the organization's purpose, priorities, and principles—that is, a galvanizing framework—leaders can equip them to make autonomous decisions that are in the company's best interests. Employees should be involved in identifying and articulating those guidelines.

THE BENEFITS

A coherent framework helps employees develop a deeper understanding of the business, which can boost performance on many levels, including engagement, quality, creativity, and customer service.

Leaders know they need to give people room to be their best, to pursue unconventional ideas, and to make smart decisions in the moment. It's been said so often that it's a cliché. But here's the problem: Executives have trouble resolving the tension between employee empowerment and operational discipline. This challenge is so difficult that it ties companies up in knots. Indeed, it has led to decades' worth of management experiments, from matrix structures to self-managed teams. None of them has offered a clear answer.

That may be because leaders cling to the notion that freedom and control are zero-sum, often oscillating between the extremes. However, in studying more than a dozen organizations in a range of industries—businesses as diverse as an entertainment company, an airline, and an e-tail start-up—I've learned that guidelines are not the death of freedom if they're well designed and well implemented. They actually support and nurture it by giving people a clear, positive, galvanizing sense of where the organization is trying to go.

Leaders who have made this basic but counterintuitive discovery have essentially cultivated freedom within a framework, embedding the organization's purpose, priorities, and principles in a living set of guidelines. Once they've laid out the framework, they commit substantial resources to helping employees understand it and thrive within it.

"Freedom within a framework" is not my phrase. Leaders I have studied use it to describe how they think about employee decision making, for instance, or how they look at the central organization's relationship to business units or individual brands. This article provides a broader definition that can be applied in a variety of contexts.

"Freedom" can mean many things, but here, as a baseline, it means trusting employees to think and act independently in behalf of the organization. It may also include allowing them to find fulfillment and express themselves.

Of course, employees' desires vary. But we know from a large body of research on organizational behavior that most people want some form of choice and voice in what they do at work, and that this can spark greater commitment and improve performance. Human-relations thinkers made this connection nearly a century ago, and since then management experts such as Peter Drucker, Jeffrey Pfeffer, Richard Hackman, and Michael Beer have advanced the argument. Robert Burgelman and Joseph Bower have shown a relationship between autonomy (of both individuals and units) and the growth of innovative ideas and ventures within companies. Kenneth W. Thomas and others have emphasized the impact that free choice can have on empowerment and motivation.

Any of the factors just mentioned—commitment, performance, innovation—would be a compelling reason to expand employees' freedom. But consider this as well: With the explosive growth of the internet and social media, people now enjoy innumerable channels for sharing concerns and ideas in their personal lives. Compared with these expansive platforms for self-expression, the workplace can feel downright stifling. The freedom of the outside world is banging at the corporate door, demanding to come inside. Yet most leaders are still afraid to open it, because they continue to view freedom and frameworks as antagonists in an intense tug-of-war. And since a tug-of-war can have only one winner, they pour their resources into regulating employee behavior.

GUIDELINES ARE NOT THE DEATH OF FREEDOM IF THEY'RE WELL DESIGNED AND WELL IMPLEMENTED. THEY PROVIDE A POSITIVE AND GALVANIZING SENSE OF WHERE THE ORGANIZATION IS TRYING TO GO.

Two decades ago the Harvard Business School organizational theorist Christopher A. Bartlett and the London Business School management professor Sumantra Ghoshal called out companies' bias toward control, arguing that leaders were misguided in their complaints about employees' lack of engagement, gumption, focus, and so on. The real issue, Bartlett and Ghoshal argued, was the persistent use of a simplistic, outdated organizational model in which leaders dream up strategy, devise a corporate structure to support it, and install systems to make sure employees toe the line. The result, they said, was often a work environment as enervating as Calcutta's heat in the summer.

Little has changed, sadly. As the faculty chair of Harvard Business School's intensive on-campus Advanced Management Program for executives, I have heard numerous firsthand accounts attesting

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to organizations' ingrained habits of control. In one memorable conversation, an HR executive of a major U.S. multinational lamented that freedom in a corporate context is, in the end, an "impossible dream."

In this article I'll share several company examples that contradict that assessment. These cases show what freedom in a framework looks like and how it functions in a range of settings, including the airline industry, one of the most regulated and rules-laden businesses. I'll also discuss the framework's fragility—its vulnerability to dissolution and its tendency, absent a constant infusion of energy, to revert to bureaucracy.

A RICHER VIEW OF FREEDOM: TWO CASES

One of the first companies I've seen push beyond the conventional, limited understanding of employee freedom is Netflix. The U.S.-based media company has received a lot of press for its hands-off approach to management. Its leaders assume that people do their best work when they don't have to ask for approval at every turn. One of the company's senior global executives told me that he personally hates to be managed and looks for the same attitude in job candidates.

In a slide deck that went viral several years ago, the company described its culture as a blend of "freedom and responsibility." That means employees are at liberty to use their own judgment within the strategic priorities articulated in "foundational" documents, which include such things as FAQs about the company's philosophy and priorities and instructions about minimizing rules and valuing flexibility over efficiency.

Consequently, Netflix has no shortage of employee-sparked initiatives, ranging from new film and TV content to innovative social media campaigns. The company lets employees make their own choices about vacation time, maternity leave, and travel expenses, rather than looking to HR to impose limits. Employees are also encouraged to communicate openly and to argue their points of view.

But here's the twist: This freedom isn't merely there for the taking. Employees are expected to exercise it, as part of their responsibility to the organization. For example, it's their job to read, understand, and debate the ideas in the foundational documents. The Netflix global executive just mentioned said that this "requires a great deal of engagement with broad aspects of the business." Once employees grasp the company's needs at that level, they are trusted to have its best interests at heart and to behave accordingly. "It's rare that people abuse the trust," the executive told me. Researchers have pointed out that companies often specify "zones of discretion" or "spheres of influence" in which employees get limited autonomy, but Netflix considers virtually the entire company to be such a zone.

"It's not necessary for us to implement control mechanisms," an HR executive told me. "We want to help people learn and give them oxygen to make mistakes." For example, he allows managers to hire candidates he would have rejected. "Managers can make the bets they feel are right for the business. I could disagree on a candidate, but if a manager takes my input and still makes another bet, I support that bet."

This blend of freedom and responsibility has paid off at Netflix. Since its founding, two decades ago, as a mail-order video-rental service, the company has expanded into online streaming with more than 100 million subscribers worldwide, representing nearly every country. It is also increasingly prominent as a producer of award-winning TV and film content. The company attributes these successes to its empowered, committed, innovative workforce.

You might wonder whether this approach is broadly applicable. I've asked myself the same question. After all, Netflix maintains a small, exceptional workforce of about 3,500 people—hardly the kind of sprawling, heterogeneous employee base "that requires rules to be effective," as the Netflix global executive put it. Its recruitment process is exceedingly selective, and the pay is high. Though some companies have such recruitment and compensation tools at their disposal—other tech-based companies, for instance, and professional services firms—lower-margin businesses usually don't. What's more, Netflix is in the entertainment industry, where mistakes may cost a lot but don't typically endanger people's health or lives. The degree of freedom that's appropriate in an entertainment or an internet company is far greater than what would be tolerated in many businesses—particularly those that are regulated and unionized—so I also closely examined organizations with such constraints. Here, too, I was able to find companies whose employees can still think constructively, innovate, and make customer-friendly decisions on their own—and exercise more choice and voice in their day-to-day work—by internalizing guidelines that complement more-conventional control systems.

Let's look at Alaska Airlines, which operates in a highly regulated, safety-focused, low-margin industry and has a diverse, unionized workforce. (If an airline can establish a coherent framework for employee freedom despite such constraints, virtually any company can do the same.) Like Netflix, Alaska learned that carefully designed and implemented guidelines can support and enrich freedom. But it took the airline a long time to get there, because its early attempts weren't sufficiently rooted in the organization's needs.

Back in the 1990s, Alaska was a relatively small company with a big personality—its workforce was friendly, informal, and eager to help. Frontline employees were encouraged to make real-time decisions to better serve customers and maintain a competitive advantage. "I remember being told [on arrival in 1997], 'Trust your gut; do the right thing,'" Stacie Baker, Alaska's director of airport training and leadership, told me. "I remember giving that guidance to others as well when I became a supervisor."

A senior executive informally dubbed this service philosophy Whatever It Takes—and the growing company adopted that as its mantra. Employees were urged to go to great lengths to assist, appease, and even compensate passengers to maintain a happy, loyal customer base. Leaders assumed—or hoped—that employees would infuse these extraordinary efforts with an understanding of the company's interests.

But employees were never given a clear sense of those interests. Whatever It Takes was entirely customer-focused, and it was a sprawling philosophy. "It didn't have any fences around it," says Andy Schneider, who was the vice president of in-flight operations back when that philosophy ran rampant. It gave some employees the false impression that there were no limits on what they could do for passengers.

The value of independent decision making did come through in a crisis: In January 2000, when Flight 261 went down in the Pacific Ocean, killing all 88 people aboard, customer service employees sprang into action to aid families and others connected to the victims. The company dispatched a team of 600 employees, equipped them with company credit cards, and authorized them to arrange for hotel rooms, babysitters, and whatever else those affected might need. "Virtually anything that needs to happen, we will do it," Jeff Butler, an Alaska Airlines executive, said at the time.

EARLY ON, ALASKA AIRLINES' INTENSE CUSTOMER FOCUS GAVE SOME EMPLOYEES THE FALSE IMPRESSION THAT THERE WERE NO LIMITS ON WHAT THEY COULD DO FOR PASSENGERS.

However, the crash also set off a cultural shift at Alaska. The company curtailed its growth plan and intensified its focus on safety, appointing a safety vice president and hiring some 200 additional maintenance workers.

Then—less than two years later, after the terrorist attacks of September 11—demand for air travel plummeted, and security costs increased. In 2001 Alaska Airlines lost \$43 million. That year U.S. airlines went from substantial profitability to a combined net loss of nearly \$8 billion, despite an emergency infusion of close to \$4 billion in government support. Meanwhile, Alaska's on-time performance had become poor, threatening customer satisfaction.

In addressing the intense pressure for safety, cost, and performance improvements, Alaska made the conventional assumption about trade-offs between freedom and control. "The world being uncertain, we became more disciplined," Stacie Baker said when we spoke. This is a common response to a crisis or a downturn. Unfortunately, as the airline clamped down, it snuffed out decision autonomy. For instance, a few years later, to improve safety and boost on-time results, it created a heavily scripted departure-and-arrival "playbook." Efficiency increased, and net profits did rise—from $138 million in 2006 to $571 million in 2014. But gate and flight attendants and other frontline workers were using less and less discretion to solve problems. Despite older workers' informal attempts to pass along the company's customer-centric traditions, newcomers felt uncomfortable making judgment calls in ambiguous situations and tended to be rigid about preserving the airline's on-time record. They "were afraid that if they didn't precisely follow the policies, they would get in trouble," Ben Minicucci, Alaska Airlines' president and COO, told me. Customer-service numbers began to slip, and competitors were catching up. As Baker explained, other airlines "were raising their game, but we were status quo."

When leaders solicited feedback from the front lines, they learned that the bureaucracy was tying employees' hands and creating frustration. So in 2014 and 2015, in hopes of winning again on superior customer service, Alaska returned to its culture of frontline autonomy. But this time the company took a serious look at decision boundaries. How should they be drawn? If it was permissible, say, to delay takeoff while a passenger ran back into the terminal to fetch a forgotten item, was it also permissible to lavish gifts on passengers to make up for delays? The answer would turn out to be no. The company saw that providing consistently excellent service while adhering to regulations and maintaining the gains in efficiency would require independent decision making—but within well-understood limits.

Drawing inspiration from the Disney Institute's "four keys" to a great customer experience, Alaska's leadership team defined four standards of service: safety, caring, delivery, and presentation. Within each standard it provided broad guidelines for employees' attitudes and behaviors.

Alaska had discovered that the frontline employee—the worker "on the spot," in the economist Friedrich Hayek's terminology—must be given enough knowledge to align his or her decisions with the organization's needs and plans. So the airline developed a comprehensive training program with an explicit goal of helping frontline employees internalize its service standards. The company's top executives attended the training to underscore its importance. In a museumlike space designed for an immersive experience, they talked about Alaska's core beliefs and history, and employees were shown artifacts such as uniforms dating to the 1940s to convey the arc of the company's story and to underscore the idea that future success would stem from long-held customer-centric values. They learned about the company's financial standing and its sustainability plan as well. The training made clear that frontline workers were essential to beating low-cost carriers and big legacy rivals, including Delta, which had gained traction on Alaska's home turf in Seattle. They also learned how the company was evaluated by J.D. Power and other raters and where it stood in relation to competitors.

Further training sessions, reinforced with videos, helped employees understand their decision-making power and how it related to the company's goals and service standards. One video, in which an agent waived a fee for a passenger whose travel plans had to be changed because of an injury, illustrated that employees were expected to make thoughtful choices on their own.

Some workers were skeptical, concerned that moving away from a purely rules-based approach would hurt on-time performance. The company assured employees that it wanted them to experiment and would support them in their decisions. Managers, too, had to be retrained—many were initially uncomfortable ceding decision authority to their direct reports. They also needed guidance on having constructive conversations with subordinates who went a little too far for customers. The goal was to help employees grow from the experience, not to punish them for well-intended choices or make them afraid to use their discretion in the future.

So far the results have been positive: In 2017 Alaska earned J.D. Power's highest customer satisfaction ranking among traditional airlines. The company's continuing position as a low-cost leader—it has been ranked at the top of the 15 biggest U.S. airlines in fuel efficiency, for example—suggests that Alaska is also achieving other performance goals. It has been listed by FlightStats as the most on-time airline in North America for seven consecutive years, and according to the *Wall Street Journal*'s domestic-airline rankings, for four years in a row it has had the best on-time performance and the fewest tarmac delays and complaints.

In addition, the training has had the unanticipated effect of improving relations among staff members. "If you've ever worked in a union environment, there's a lot of paranoia, a lot of misinformation," Andy Schneider explained to me. "It was healthy for employees to hear, 'Hey, we don't always get it right, but we're committed to this. We're committed to you. And we need you in order to win.'"

DEFINING THE FRAMEWORK

In a groundbreaking series of HBR articles in the 1990s (including "Changing the Role of Top Management: Beyond Systems to People," May–June 1995), Bartlett and Ghoshal offered an antidote to the strategy-structure-systems thinking that gives rise, again and again, to oppressive workplace controls: Companies, they said, need to shift to a model built on an engaging corporate purpose, effective

A SIMPLE SET OF PRINCIPLES, GROWING OUT OF THE ORGANIZATION'S PURPOSE AND PRIORITIES, HELPS EMPLOYEES CHOOSE AMONG REASONABLE OPTIONS IN THEIR DAY-TO-DAY WORK.

management processes that encourage individual initiative, and a people policy focused on developing employees' capabilities rather than on monitoring their behavior. They suggested that employee motivation would grow out of a "strong central framework" embodying the company's vision.

The advice is eminently well founded but has proved hard to implement, because it leaves some big questions unanswered: How should companies translate purpose into action? How can they encourage initiative and de-emphasize monitoring without causing chaos? What, exactly, is a framework, and how does it function? So I am proposing some refinements to Bartlett and Ghoshal's model, to make it more user-friendly. I, too, have identified three core elements.

First, as Bartlett and Ghoshal also argued, a company needs to articulate its *purpose*—a single shared goal that sums up the "why" of the organization. This conveys how the company makes sense of the world and brings stakeholders together in a common cause. The purpose gives direction and meaning to everything the company and its employees do. Employees often adopt it as their own reason to work for the organization.

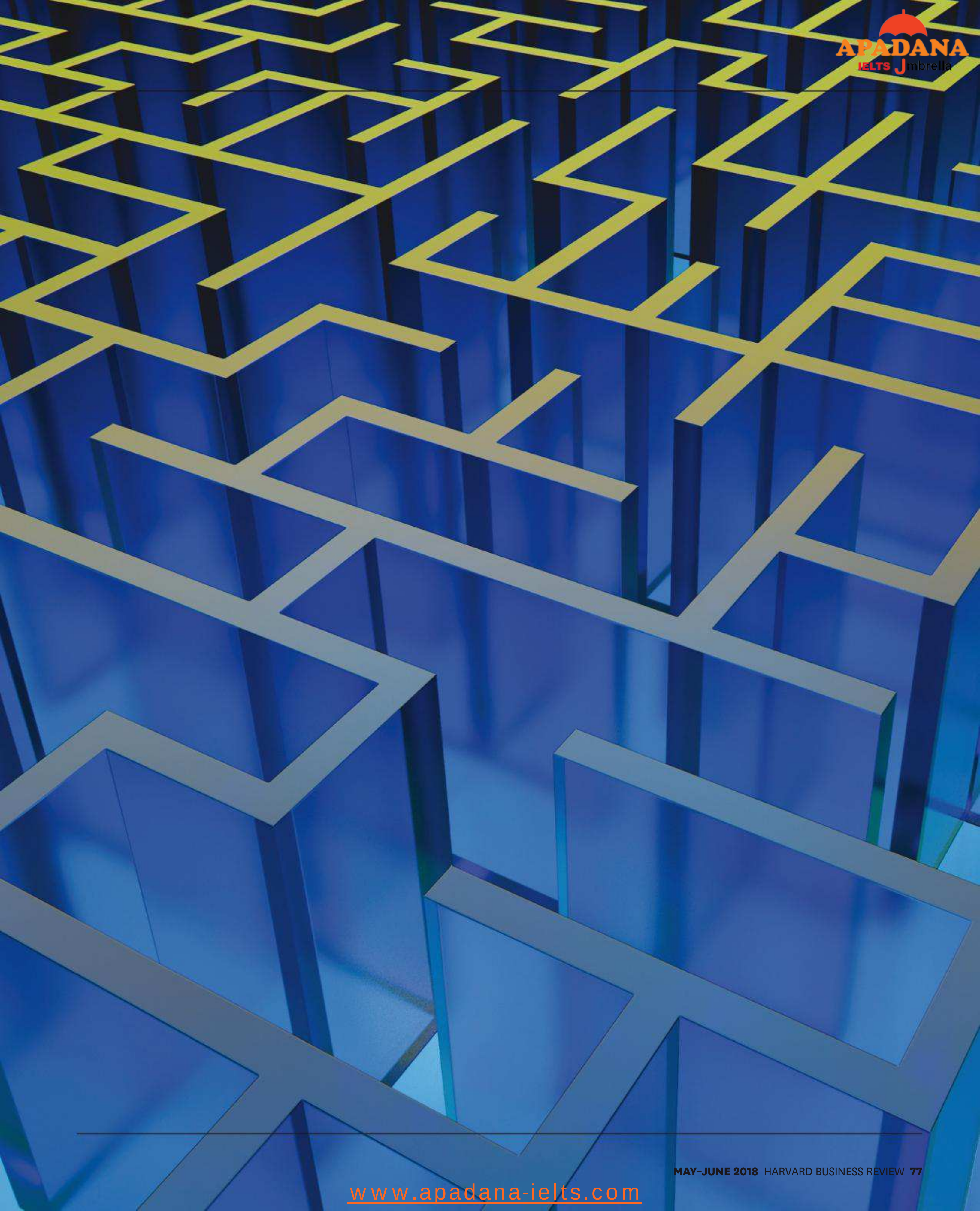
To develop a purpose and articulate it in a way that would resonate with workers, Alaska put together a team of two dozen high-performing and widely respected frontline employees and eight managers. They ultimately described Alaska's purpose as going above and beyond to create "personal connections and extraordinary journeys."

On its own, a statement like that is pretty lofty. It needs to be tethered to reality by established *priorities*—behavioral rules that reflect the organization's goals. Spelling out the company's interests enables employees to act in those interests and use time and other resources wisely. Alaska Airlines explicitly ranked its four standards of service in priority order, with safety outweighing caring, which outweighed delivery, which outweighed presentation. "Going above and beyond" translates into going an "extra inch" for customers without sacrificing safety or efficiency. "If we all give an inch, all those inches turn into a mile," Baker said.

Finally, a simple set of *principles,* growing out of the organization's purpose and priorities, helps employees choose among reasonable options in their day-to-day work. A principle should apply to more than one situation—it should facilitate decisions in an array of contexts. That said, it shouldn't be so broad that it provides no real guidance. Take the statement "All employees must be treated with respect." Although that is a laudable aim, what does it look like in practice? Better to describe behaviors that convey respect, such as encouraging people to express their opinions freely or even rewarding them for doing so. Principles can also be constructed out of business choices, such as infusing innovation efforts with design thinking or focusing on the needs of international or middle-market customers.

Principles, then, can include positive guidelines for action as well as limits on behavior. And ideally, they, along with purpose and priorities, will be iteratively defined and tweaked, with feedback from people at all levels of the organization. Otherwise the framework won't make sense in practice, won't reflect the company's interests, or will lack consistency. Alaska's Whatever It Takes campaign had all three problems.

By contrast, the company's 2014 initiative drew heavily on the experience and wisdom of both leaders and frontline workers. The team of employees and managers who had articulated Alaska's purpose, priorities, and four key service standards met every few weeks over several months to define the airline's principles. Executives occasionally came in to receive briefings and provide feedback. One, for instance, challenged the idea of including "I comply with company standard uniforms" as a principle within the "presentation" standard, because it seemed unnecessarily specific. But the team insisted on the importance of the guideline, so it stayed in.



It's critical to listen to frontline workers even when their views conflict with senior management's. That is what connects the framework to practice and helps legitimize it in employees' eyes. Though I happen to agree with the executive who thought the line about uniforms was too granular, it will be up to managers and employees to sort that out in future conversations about the framework—after they've lived with it and applied it.

When I meet with business leaders, sometimes an analogy helps me explain how purpose, priorities, and principles enable freedom. I point to an intrepid group of improv actors known as the Improvised Shakespeare Company. The ISC takes audience suggestions for titles (usually ridiculous ideas, such as *The Knave's Pantaloons*) and, in real time, creates Shakespearean mini-dramas to fit them. It's evident that the players have all acquired a deep knowledge of Shakespeare's themes, characters, and language, as well as an understanding of what's required to keep audiences engaged and coming back for more. They have so fully internalized the troupe's purpose (to entertain), priorities (to be hilarious and interactive), and principles (situations and dialogue must feel authentically Shakespearean) that they can improvise with dizzying inventiveness without sacrificing coherence. Similarly, in a business environment the purpose provides the motivation, the priorities and principles provide the knowledge, and together the three elements support superior judgment in the moment.

IMPLEMENTING THE FRAMEWORK

Trusting employees to implement the framework generally works well. But it's useful to put some checks and balances in place, as the internet-era eyewear retailer Warby Parker has done.

Before we look at how, let's consider some background: Warby Parker is a relatively small, young start-up—at the time of this writing it had been around for just seven years and was still running on venture capital. Though it has opened more than 60 physical stores, in other ways it resembles Netflix: It's a web-based company that has a "home try-on" program, and it has used a highly selective hiring process to grow its workforce (currently numbering about 1,300). Its employees have considerable freedom to voice their ideas and concerns, whether by engaging in honest conversation, participating in 360-degree reviews, or proposing new initiatives.

As at the other companies I've mentioned, employees' freedom exists within a well-defined framework: The company's purpose is to "do good" (for example, through partnerships with nonprofits, Warby ensures that for every pair of glasses sold, a pair is distributed to someone in need). As for priorities, the company has developed a system in which 30-plus senior managers cast "Warbles" (weighted votes) on employee-proposed projects related to engineering. The more Warbles something gets, the stronger the indication of priority. But in practice the rankings function as preferences, not direct orders. Engineers may disregard the vote-based priorities and instead work on projects that best fit their skills, interests, and views regarding what will benefit the company most.

It's a democratic system, but one in which the people doing the work have a degree of decision power—within established boundaries. The system serves broader functional and philosophical purposes, too: In encouraging proposers to seek support for their ideas, it fosters widespread conversations, underscoring the company's principle of valuing both consensus and autonomy.

Of course, a critical part of implementation is learning from missteps. As large engineering projects unfold, Warby Parker holds periodic "retrospective" conversations with relevant stakeholders—including managers outside engineering—to capture learning about what's going right or wrong. For example, during a commercial foray into Canada, participants discussed why they hadn't realized until late in the game that a local bank card was incompatible with the company's payment system. Conversations about such missteps are structured to cover not only what could have gone better but also "What's still an open question—what still puzzles us?" according to Andrew Jaico, a Warby Parker technical product manager.

THE FRAGILITY OF A FRAMEWORK

At numerous companies freedom frameworks (or proto-frameworks—that is, less-developed ones) have fallen apart. Why does that happen?

The short answer is that a framework, like freedom itself, is inherently fragile. It requires maintenance. You can't expect it to last unless you provide constant infusions of energy. So one major risk is neglect. People must maintain an explicit awareness of the company's purpose, priorities, and principles. If those elements fade from managers' and employees' consciousness, the framework is in jeopardy. The same will be true if the company brings in a host of new employees—say, through a merger or an acquisition—but doesn't immerse them in the guidelines.

Another risk is that new leaders will fail to support the framework because they don't grasp its value. Or—probably even more common—the leaders who established it may turn around and deliberately take away some employee freedoms for one of these reasons:

Reaction to a crisis. After a major shock, leaders tend to lurch into big changes when a better approach might be to maintain a steady course while increasing the organization's learning. Alaska Airlines' suppression of employee freedom when revenue and performance were declining provides an example of this pendulum effect.

Reaction to success. Sometimes freedom-fueled performance is followed by a period of inflexibility, as was the case at Nokia. In the 1970s CEO Kari Kairamo had downplayed traditional formalities and processes in favor of speed and agility, thereby propelling the company into the electronics and telecom markets that would eventually yield its greatest wins. Yet a little over a decade after the company reached its peak, in the late 1990s, Nokia underwent a shift toward bureaucracy. My Harvard Business School colleagues Juan Alcacer and Tarun Khanna found in their research that as the company rapidly grew, it was unable to adapt to all the distinct challenges in different global markets. In many instances headquarters ignored or responded too slowly to requests from subsidiaries. Nokia ceded market share to both low- and high-end competing products.

The primacy of process. In some organizations, rules for how to do the work assume too much importance, and people toil away without autonomy or any understanding of why. Even in industries such as health care and pharmaceuticals, where employees often share a strong sense of their organizations' purpose, process can overtake meaning. A VP at one global pharma company told me that customer-facing employees fundamentally love what they do—"our values are alive"—but "the head office imposes so many restrictions on compliance, training, and rules of engagement to cover our risk that employees can hardly maneuver."

Given these sources of fragility, companies need to constantly monitor employee voices and look for signs of declining agency. Is there real diversity among workers' expressed viewpoints? Is there significant variation in the kinds of projects people are undertaking? Even the best-designed freedom frameworks must be reinforced through education, executive example, and rigorous after-action discussion.

AFTER ALASKA AIRLINES acquired Virgin America, the once-small regional carrier became the fifth-largest airline in the United States by traffic. The merger brought in 3,000 additional employees, all of whom would require training in Alaska's approach to customer service. The acquisition increased the challenge regarding employee freedom. As COO Ben Minicucci put it: "How can I make sure 20,000 people feel connected to management, that they embrace our purpose?" To complicate matters, Virgin had its own, less-formal freedom framework. It had fewer explicit guidelines and went further than Alaska in encouraging employees to express their personalities and interests at work. The acquisition has pushed Alaska into making refinements to embrace elements of Virgin's purpose and values.

A FRAMEWORK, LIKE FREEDOM ITSELF, IS INHERENTLY FRAGILE. IT REQUIRES MAINTENANCE. YOU CAN'T EXPECT IT TO LAST UNLESS YOU PROVIDE CONSTANT INFUSIONS OF ENERGY.

Stress tests like Virgin's integration—and Netflix's rapid expansion into new markets, and Warby Parker's long-range goal of becoming an international corporation—occur against a backdrop of expanded freedom in employees' personal lives. Indeed, concepts of freedom are highly dynamic. They must be continually redefined—they must breathe, grow, and evolve within companies' simultaneously changing needs.

All of which highlights the importance of creating strong, coherent frameworks that can be relied upon to support and strengthen that freedom going forward.

HBR Reprint R1803D

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MARKETING IN THE AGE OF ALEXA

AI ASSISTANTS WILL TRANSFORM HOW COMPANIES AND CUSTOMERS CONNECT.

BY NIRAJ DAWAR AND NEIL BENDLE

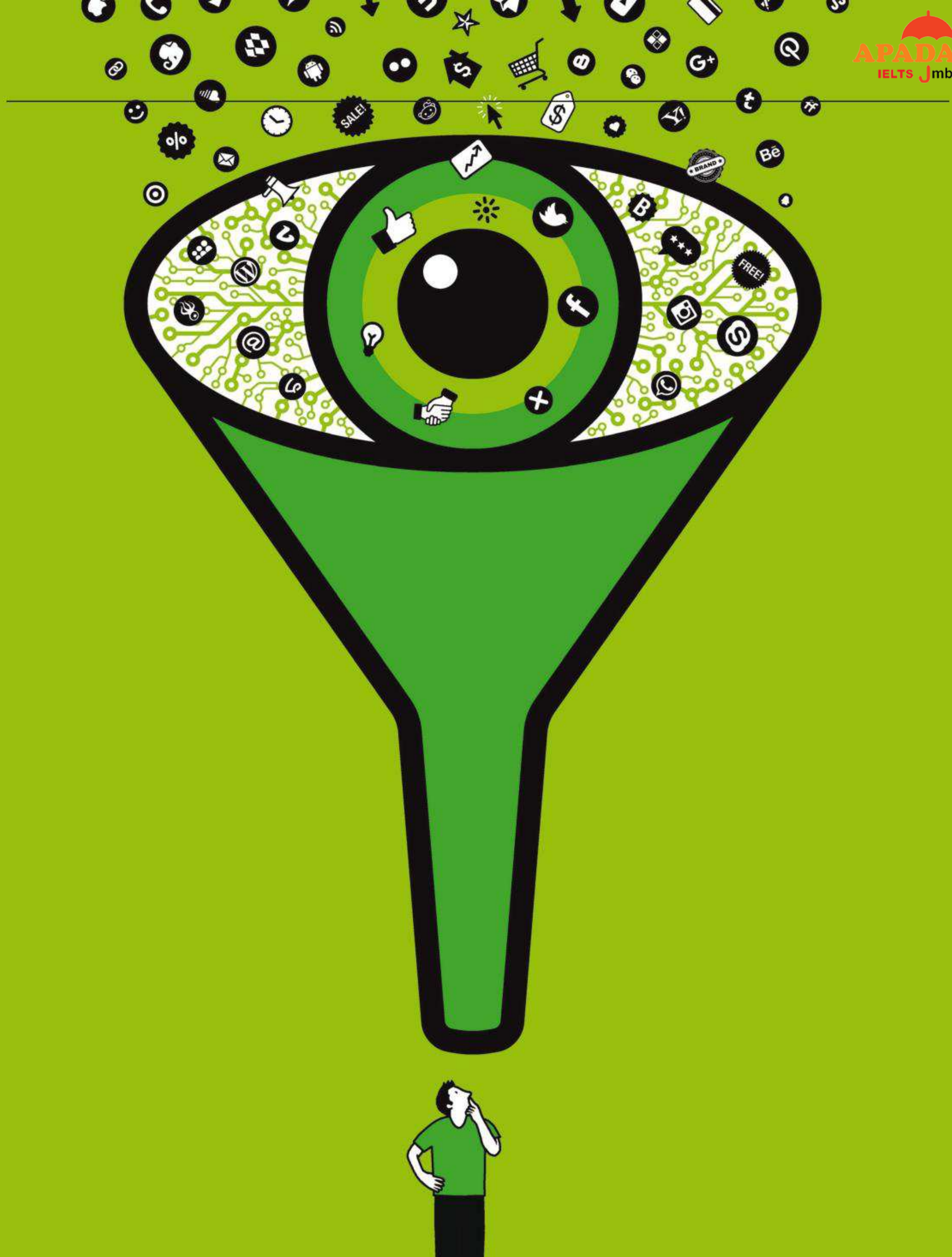
THE AUTONOMOUS CAR *dropped Lori at her home and then left for its scheduled service at the dealership. It would be back in time to take her to the airport the next morning. On the way into her house, Lori gathered the drone deliveries from the drop box on her stoop. The familiar voice of Eve, a next-generation smart assistant like Alexa, greeted her in the foyer and gently reminded her of the travel plans for her upcoming conference in LA. Lori hadn't bothered to learn the details, since Eve had taken care of finding the best flight, seat, and hotel room that her company's expense policy would allow.*

As she unpacked her grocery delivery, Lori saw that Eve had adjusted her weekly purchases, omitting perishables and adding travel-size toiletries and sunblock. Calculating that Lori was running low on detergent (and aware she'd be coming home with laundry to do), the bot had ordered more but switched to a new, less expensive brand that was getting good consumer reviews. And, knowing that Lori wouldn't want to cook, it had arranged for her favorite takeout to be delivered upon her return.

Thank goodness for Eve, Lori thought to herself. In addition to managing her shopping and travel, the bot tracked her spending and kept her costs down. Each quarter, for example, Eve checked all the telecommunications plans on the market and compared them against Lori's projected data usage. Her current plan gave her the best price for her mostly evening and weekend usage, but with her brother's 40th birthday approaching, Eve had anticipated a lot of data traffic among Lori's friends and family and found a deal from an upstart firm that would save her money. That offer was instantly matched by Lori's current provider, a company that had paid to be featured on Eve and to have the right to meet competitors' prices. Lori relied on Eve for similar help with buying insurance, banking, and investment products, too. Sometimes she had to instruct her bot about her criteria and the trade-offs she was willing to make (for example, to forgo higher returns for a greener investment portfolio), but more recently, Eve had begun figuring out what product attributes she was after—even aesthetic ones—without having to be told.

Lori didn't know how she had ever coped without Eve. She had come to trust the bot not just for advice on complex purchases but also to make many of her routine decisions and to introduce her to new products and services she didn't even know she wanted.

ILLUSTRATION BY TOMASZ WALENTA


SALE!
FREE!

DOES THIS SCENARIO SOUND FAR-FETCHED?

It isn't: All the technologies that Lori uses to interact with her world are either currently in development or already available—and being rapidly refined. Amazon, Google, Baidu, and other tech giants have launched artificial intelligence platforms with increasingly skilled digital assistants. While none have yet attained Eve's sweeping capabilities, that is clearly their goal—and it's just a matter of time before they get there.

AI assistants are rapidly colonizing consumers' homes. Analysts estimate that Amazon, for instance, has sold some 25 million Echo smart speakers, which people use to engage with its AI assistant, Alexa, and that number is expected to more than double by 2020. Once you take into account the millions of other devices that can already host Alexa through iOS or Android apps, Alexa's market penetration looks even higher.

Google Assistant, accessed chiefly through Google Home cylinders and Pixel phones, is now available on 400 million devices. Earlier this year Apple launched a Siri-enabled HomePod, and Samsung has acquired Viv, an intelligent assistant company founded by Siri's creators, to bolster its Bixby AI assistant platform. Microsoft and Tencent have platforms for their own AI assistants (Cortana and Xiaowei), and virtual assistants Chumenwenwen and Xiaoice (which is capable of uncannily human conversations and reportedly has 40 million registered users) are already popular in China.

Over the next decade, as these firms and others fight to establish the preferred consumer AI platform, AI assistants will transform how companies connect with their customers. They'll become the primary channel through which people get information, goods, and services, and marketing will turn into a battle for their attention.

AI assistants will help consumers navigate their increasingly overwhelming number of choices. Every year people buy from thousands of product categories, deciding among dozens or hundreds of options in each. Even routine purchases can be time-consuming; nonroutine purchases often require sorting through the nuances of competing offers and are fraught with risk. While shopping for shoes may be fun, picking the right toothbrush from more than 200 products is pretty tedious. Choosing the wrong tennis racket can ruin your game, and buying an ill-considered cell phone plan or insurance policy can be costly.

AI assistants will not only minimize costs and risks for consumers but also offer them unprecedented convenience. They'll ensure that routine purchases flow uninterrupted to households—just as water and electricity do now—and manage the complexity of more-involved shopping decisions by learning consumers' criteria and optimizing whatever trade-offs people are willing to make (such as a higher price for more sustainability).

The effects on the business landscape will be far-reaching. Technologies that revolutionize the way consumers interact with a marketplace also tend to reconfigure its dynamics and reshape the companies that sell into it. In the 1950s, for instance, the rise of supermarkets made scale and mass media much more important to marketers, triggering a wave of consolidation among consumer goods companies. AI platforms and assistants will likewise change the game for brands and retailers, altering the relative power of players in the value chain and the underlying basis of competition.

These predictions grow out of our ongoing research into the ways technology has been redefining relationships among customers, brands, and firms. In the course of it, we have reviewed hundreds of relevant academic, industry, and news articles, and held in-depth discussions and structured interviews with industry experts and executives at Google, L'Oréal, EURid, and other global businesses. (Ivey Business School graduate student assistants Gobind deep Singh and Vivek Astvansh helped us with the early literature reviews.) In this article we'll outline in more detail the near-term changes we expect AI platforms to bring about and explain the implications they hold for marketing strategy.

MARKETING ON PLATFORMS

Once the dust settles, we expect that just a handful of general-purpose AI platforms will be left standing. (See the sidebar "The Coming Platform Shakeout.") Most consumers will use only one, whose assistant will be incorporated into their homes, cars, and mobile devices. The platform will gather and deliver information, and the assistant will be the consumer's interface with home systems, appliances, and other machines. The assistant will also be the portal to an infinite shopping mall of goods and services. The more consumers use a platform, the better it will understand their habits and preferences, and the better it will meet their needs—increasing their satisfaction in a self-reinforcing cycle.

IN BRIEF

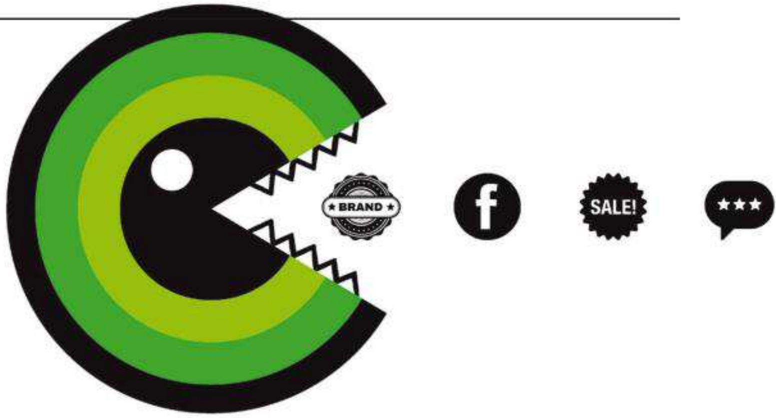
THE NEW ENVIRONMENT
Over the next decade, smart assistants like Alexa will transform how companies sell to and satisfy consumers, and global firms will battle to establish the preferred artificial intelligence platform.

THE CHANGING BEHAVIOR
AI assistants will become trusted advisers to consumers, anticipating and satisfying their needs, ensuring that routine purchases flow uninterrupted to their households like electricity, and guiding them through complex buying decisions.

THE STRATEGIC RESPONSE
Brands will need to shift the focus of their marketing from consumers to AI platforms, seeking to influence platforms in order to get preferential positioning on AI assistants.

WILL BRANDS MATTER?

Thanks to AI platforms, the job of branded-goods companies is about to get much harder. Increasingly, AI assistants like Alexa will control access to those firms' customers, and brand recognition will play less of a role in product selection than dynamic and idiosyncratic AI algorithms will. That doesn't mean, though, that brands will no longer matter. They can respond in three ways:



First, they must invest aggressively in understanding the algorithms platforms use to recommend and choose products, including how they weight each brand for each consumer. In some categories and for some consumers, brands may be more important than price (Apple is an example). In others (say, toothbrushes), brands may be less relevant. AI algorithms will take such differences into consideration.

Second, brands should assess the value of maintaining direct ties with consumers. For some kinds of offerings, such as smart, connected consumer electronics, promoting brand awareness and loyalty outside AI platforms may be a good strategy. Smart products give companies a direct channel for communicating with customers and collecting data on them, which may make those companies less reliant on AI platforms. In such cases, ongoing investments in brand building will make sense.

Finally, while consumers are increasingly buying online, most purchases—currently about 90% of global retail sales—occur in brick-and-mortar stores. For the foreseeable future, consumers will continue to shop offline, where brands will remain influential. As consumers' purchasing shifts to AI platforms, brands should regularly evaluate how important the physical retail channels remain (that will vary widely by category) and adjust their strategy accordingly. Brands will still be the experts in the product categories in which they operate, with deep knowledge about consumer behavior and product innovation.

Marketers' current obsession with creating an omnichannel customer experience will fade as AI platforms become a powerful marketing medium, sales and distribution channel, and fulfillment and service center—all rolled into one. The concentration of those functions within a few platforms will give their owners enormous clout, and branded products will find themselves in a weaker position. Consumer companies that feel that large retailers like Walmart wield too much power today will be even more alarmed by the might of AI platforms. As a major—or even primary—means of communicating with consumers, and the repository of reams of data about their habits, preferences, and consumption, the platforms will have a lot of influence over prices and promotions and the consumer relationship itself.

Brands today owe their success to their ability to signal quality and win buyers' loyalty. But in a world of AI platforms, marketers may find that consumers like Lori shift their allegiance from trusted brands to a trusted AI assistant. The activities that help brands cement relationships with buyers over time—understanding and filling people's needs, assuring quality, and consistently putting consumers' interests at the center—will in many cases be performed better by AI. In fact, we predict that AI assistants will win consumers' trust and loyalty better than any previous marketing technology. We therefore expect the focus of many brands to shift from reinforcing direct relationships with consumers to optimizing their positions on AI platforms. However, in selected cases it may still make strategic sense for brands to maintain strong ties with consumers outside the platforms. (See the sidebar "Will Brands Matter?")

These changes will have an impact on companies at three critical levels: customer acquisition, satisfaction, and retention.

ACQUISITION

With consumer data now being used to create finely targeted marketing, customer acquisition has become ever more efficient. Still, marketers' aim is far from perfect. Ads continue to be directed at consumers who aren't good prospects—and don't reach everyone who may be interested in an offering. Even when an ad does find the right audience, its message is often blunted by consumers' cognitive limitations: People might need to see the ad many times before it registers or may forget it entirely. They may remember only the parts that interest them (for example, the humor) but not the product's name or distinctive promise.

Those problems will matter less in the coming years, when the main target of the billions in annual spending on brand marketing will shift from forgetful, biased consumers to AI platforms that retain every last bit of information. Platforms will analyze that data, taking into account products' pricing, characteristics, past performance, and reviews (weighted by authenticity and relevance) and the consumers' preferences and past behavior. Customer acquisition will become even more of a science and will focus on a single channel—the platform—rather than on multiple channels.

In this universe, influencing the platforms' algorithms will be the key to winning. It will be crucial for companies to understand the customized purchasing criteria that the AI applies on behalf of each consumer. Sellers will probably have to pay platforms to get that

CONSUMERS WILL SHIFT THEIR ALLEGIANCE FROM TRUSTED BRANDS TO A TRUSTED AI ASSISTANT.

information—and to be “listed” on them, in much the same way that brands now pay shelving fees to brick-and-mortar retailers. Marketers can also expect to bid on or otherwise pay extra for preferential positions, just as hotels today bid to appear at the top of the results on Expedia, or marketers compete in Google’s AdWords auctions to come up first in searches. Though Amazon says it has no plans to add advertising to Alexa, CNBC has reported that the company is talking with several consumer goods firms about promoting their products on the platform. Experiments “in the works,” said CNBC, would allow Alexa to make product recommendations based on a user’s previous inquiries (“How do I clean grass stains?”) or past shopping behavior. We believe that product placement and recommendations on AI platforms are inevitable and will, in time, be a major source of revenue.

In different ways, all these payments will be for access to the consumer. Companies will essentially reallocate to the platforms what they spend today on advertising, listing and slotting fees, and retail commissions. Brands will shape their offers and innovation strategies around getting AI assistants to showcase their products.

The bustling ecosystem that now helps companies woo customers, including ad agencies and media buyers, will need to learn to market through AI platforms. Marketing services that target platforms will be even more accountable than media buyers are today and will need to show links to actual consumer behavior. Traditional market research may be supplanted altogether by the intelligence about consumers’ actual behavior that brands will be able to buy directly from platforms.

CUSTOMER ACQUISITION WILL BECOME EVEN MORE OF A SCIENCE AND WILL FOCUS ON A SINGLE CHANNEL—THE AI PLATFORM.

SATISFACTION

Customer satisfaction drives loyalty, word of mouth, market share, and profitability. No wonder marketers are fixated on monitoring it. Imagine, then, a world where reliable satisfaction data is easier to get from AI platforms than from consumers themselves.

A platform serves consumers by constantly anticipating their needs. To do that it must collect granular data on their purchasing patterns and product use and try to understand their goals: Do they want food products to improve their health, energy products to minimize their environmental impact, and financial products to increase their long-term returns? Or are their criteria taste, price, and short-term performance? Sophisticated AI platforms will go further and figure out the trade-offs consumers are willing to make: How much more will they pay for a more healthful product? How much room in a car will they sacrifice to get better fuel efficiency? AI platforms will even know whether consumers are likely to adapt their requirements in different contexts—for example, if a person on a diet will make an exception for dessert when celebrating.

Because of all this, AI platforms will be able to predict what combination of features, price, and performance is most appealing to someone at a given moment. Ultimately, AI assistants may be able to satisfy customers’ needs better than the customers themselves can. Relatively primitive recommendation engines are already moving in this direction, suggesting books, movies, and music that consumers didn’t know they would enjoy.

AI platforms will lead to more-efficient sorting and matching in the marketplace. Consumers who prefer the Four Seasons, for instance, will be unlikely to be offered reservations at a Trump hotel by their platforms. So brands will want to sharpen their positioning in ways that the platforms will register.

RETENTION

Marketers assume that repeat purchases indicate customer satisfaction and are a sign of brand loyalty. Yet many customers keep buying a product not because it delights them but because they can’t be bothered to explore alternatives if a brand is performing adequately. Put simply, most people have better things to do than evaluate the ingredients of laundry detergents. An AI assistant, however, does not. It can regularly reassess all brands in any category, whether laptops or chewing gum, and recommend a new one that might serve the consumer better. Some consumers may even like to switch things up just for the sake of variety—so their assistants, being aware of that, will periodically recommend new products they might like.

That routine reevaluation of purchases will force incumbent brands to constantly justify their positions. But it will also open opportunities for challengers. Competition will get more intense.

Though incumbents will need to innovate to hang on to customers, they’ll be able to buy information from platforms that will help them inhibit brand switching. If a brand knows that a consumer is likely to defect (say, because she has indicated a desire for change to her assistant), it can compute retention metrics in real time to see whether she’s worth keeping. If she is, the brand can make her a customized offer that reflects exactly what she needs to stay put. If the consumer accepts it, both she and the brand win: The brand keeps the business and the consumer gets a better deal. The AI platform is in the middle, serving both in ways that create value for each while generating revenue for itself.

On their part, challenger brands can use intelligence from a platform to acquire customers. Promotions through AI assistants will be the tool of choice for upstarts. Of course, once a challenger breaks in, it will be subject to threats from the incumbent and other rivals. The secret to competitive differentiation—and, hence, retention—will be constantly designing offers that meet a customer's evolving criteria. For brands, this will become as much a focus of innovation as developing better products is.

THE IMPERATIVES FOR PLATFORMS

AI platforms will succeed only if consumers have faith in them. As one platform leader at Google told us, "Building trust will be the most important thing we do." To earn consumers' confidence, platforms must ensure three things: accuracy, alignment, and privacy.

ACCURACY

By continually learning each individual's desires and requirements, the platform algorithms will hone their ability to please consumers. If a platform can recommend an alternative to a trusted brand that it thinks the consumer will like better, and the consumer is happier with the alternative, that platform will supplant the brand as the object of her trust.

ALIGNMENT

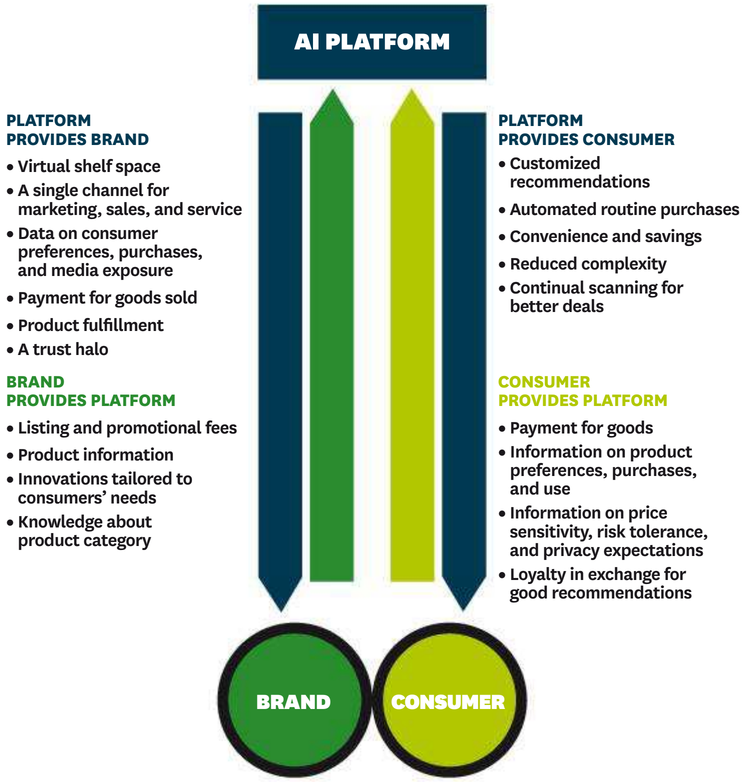
There's a built-in conflict of interest that platforms must manage carefully. On one hand, they must single-mindedly focus on meeting consumers' needs; if they fall short, it will erode trust. On the other hand, they'll have contractual arrangements to provide preferred placements and consumer data to brands. If people sense that an assistant is pushing a paying brand that isn't aligned with their needs, that too will undermine trust. One solution might be for platforms to be transparent about their relationships with brands, just as Google is today when it identifies some search results as ads. Another may be to give paid and unpaid recommendations equal weight; if a consumer asks an AI assistant how best to remove grass stains, the response might include both a paying bleach and a comment that generic bleaches can be just as effective. The brand gets its plug, and the assistant demonstrates that it's trustworthy.

THE COMING PLATFORM SHAKEOUT

Today there are perhaps a dozen serious contenders in the nascent AI platform industry. But we expect that this field will eventually be narrowed down to only a few. What will drive this concentration, and how will winners be chosen?

For starters, the market has high barriers to entry. Large general-purpose AI platforms are extremely expensive to build and run. It took thousands of engineers several years to develop Amazon's Alexa, for instance. Besides committing vast internal resources to development, each player must establish an extensive ecosystem of providers that supply data, services, skills, and apps. To succeed, platforms need a large installed base and a wide range of capabilities. Those that achieve scale and scope will have a natural advantage: The more a platform can do reliably and well, the more loyal users will be to it. Over time it will learn consumers' preferences and habits, which will make it even better at anticipating and satisfying people's needs, which will make consumers use it more. Those dynamics, combined with a lack of data portability across platforms, will make AI platforms sticky. Advantages will accrue mostly to just a few large platforms. While smaller platforms such as Uber's or Expedia's may coexist for a time, we expect they'll ultimately be incorporated into the large general platforms as vendors or as specific AI assistant skills.

HOW AI PLATFORMS CREATE VALUE



THREE QUESTIONS FOR BRANDS

1 Whom is the platform working for?

Before answering this question, let's apply it to traditional platforms. Consider credit card companies and brick-and-mortar retailers: Both perform functions—providing convenience, efficiency, and risk reduction—for the buyers and sellers they connect. AI platforms likewise work for multiple stakeholders, including brands. But bear in mind that if they don't serve the interests of the consumer, they won't be adopted. And the more consumers trust and rely on them, the more effective they are as a source of data and a channel for marketers. As with any well-functioning platform, creating value for parties on either side generates value for the platform itself.

2 What do we want from the platform?

The obvious but incomplete answer is, we want it to sell our products. However, at the outset marketers should not think of a platform principally as a sales channel; they should look at it as a source of information. For a price, AI platforms will offer a view of consumer behavior and motivations more detailed than anything that's ever been available before. That nuanced understanding will allow companies to redesign every aspect of marketing—from segmentation to pricing to product features and promotional offers—to better meet consumers' needs. Platforms in turn will promote the improved products—and become the superior sales channel marketers seek.

3 How can we make sure the platform chooses us?

Here, brands will have two levers. One will be to pay for preferential positioning; the other, and likely the most powerful, will be to continually innovate their offerings so that they align with customers' stated and implicit needs, drawing on data supplied by the platforms. This will require brands to sharpen their differentiation; hone their ability to compete on speed, quality, and cost; and recognize and respond to rapid or subtle shifts in consumer tastes.

PRIVACY

Platform owners, as well as marketers, will need to strike a careful balance between the use of personal information and AI performance. The more data gathered, the more accurate the platform—but the more exposed consumers may feel. A solution here could be to offer customized privacy settings, as Facebook now does, giving users control over what information they share and how widely. Another, less satisfactory solution might be to argue, as Google sometimes does, that privacy is protected because consumer data is handled by machines without human intervention.

Consumers have long been willing to give up personal information, and even privacy, for convenience. AI assistants will offer much greater convenience but be far more intuitive and intrusive than any software now in use, greatly magnifying the trade-offs.

ALL CONSUMER-FACING FIRMS can expect AI platforms to radically alter their relationships with customers. Their traditionally crucial assets, such as manufacturing capability and brands, will become less central as consumers' attention shifts to AI assistants, and the value of consumer data and AI's predictive ability soar. Push marketing (getting platforms to carry and promote a product) will become more important, while pull marketing (persuading consumers to seek products) becomes less so. The consumer will remain the target of brand-building efforts, but marketing that encourages trial and repeat purchases will be more effective when aimed at AI. Though the marketplace will be more efficient, companies will encounter intense pressure to offer consumers the best deal—the one most closely aligned with the preferences identified by AI gatekeepers.

For a long time, consumer goods companies, used to maximizing economies of scale because of their large fixed investments in production and brands, have zeroed in on one strategic question: How much more of our product can we sell? AI platforms will present a very different opportunity: to maximize the depth of the relationship with the consumer by offering a wide range of products—in other words, economies of scope. Investments in building trust with consumers and their AI assistants will be amortized by asking, What else does this buyer need? Superior marketing strategy will still matter—firms must acquire, satisfy, and retain consumers in the AI world—but what it involves is likely to change substantially.

HBR Reprint R1803E

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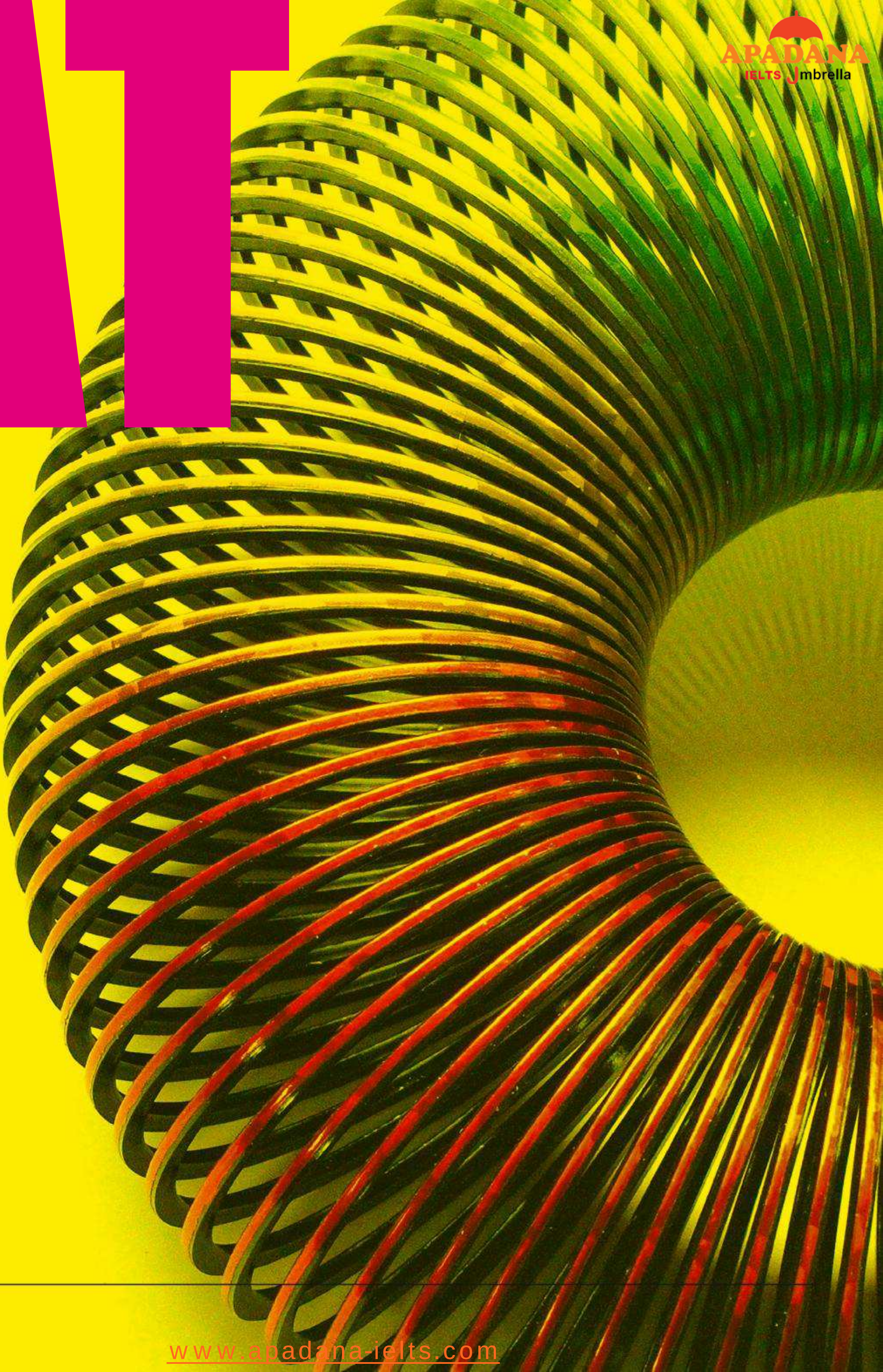
AGILE SCALE

HOW TO GO FROM A FEW TEAMS TO HUNDREDS

BY DARRELL K. RIGBY, JEFF SUTHERLAND, AND ANDY NOBLE

AT



MANUELA SCHEWE-BEHNISCH/EYEEM/GETTY IMAGES

BY NOW MOST BUSINESS LEADERS ARE FAMILIAR WITH AGILE INNOVATION TEAMS. THESE SMALL, ENTREPRENEURIAL GROUPS ARE DESIGNED TO STAY CLOSE TO CUSTOMERS AND ADAPT QUICKLY TO CHANGING CONDITIONS. WHEN IMPLEMENTED CORRECTLY, THEY ALMOST ALWAYS RESULT IN HIGHER TEAM PRODUCTIVITY AND MORALE, FASTER TIME TO MARKET, BETTER QUALITY, AND LOWER RISK THAN TRADITIONAL APPROACHES CAN ACHIEVE.

Naturally, leaders who have experienced or heard about agile teams are asking some compelling questions. What if a company were to launch dozens, hundreds, or even thousands of agile teams throughout the organization? Could whole segments of the business learn to operate in this manner? Would scaling up agile improve corporate performance as much as agile methods improve individual team performance?

In today's tumultuous markets, where established companies are furiously battling assaults from start-ups and other insurgent competitors, the prospect of a fast-moving, adaptive organization is highly appealing. But as enticing as such a vision is, turning it into a reality can be challenging. Companies often struggle to know which functions should be reorganized into multidisciplinary agile teams and which should not. And it's not unusual to launch hundreds of new agile teams only to see them bottlenecked by slow-moving bureaucracies.

We have studied the scaling up of agile at hundreds of companies, including small firms that run the entire enterprise with agile methods; larger companies that, like Spotify and Netflix, were born agile and have become more so as they've grown; and companies that, like Amazon and USAA (the financial services company for the military community), are making the transition from traditional hierarchies to more-agile enterprises. Along with the many success stories are some disappointments. For example, one prominent industrial company's attempts over the past five years to innovate like a lean start-up have not yet generated the financial results sought by activist investors and the board of directors, and several senior executives recently resigned.

Our studies show that companies can scale up agile effectively and that doing so creates substantial benefits. But leaders must be realistic. Not every function needs to be organized into agile teams; indeed, agile methods aren't well suited to some activities. Once you begin launching dozens or hundreds of agile teams, however, you can't just leave the other parts of the business alone. If your newly agile units are constantly frustrated by bureaucratic procedures or a lack of collaboration between operations and innovation teams, sparks will fly from the organizational friction, leading to meltdowns and poor results. Changes are necessary to ensure that the functions that don't operate as agile teams support the ones that do.

LEADING AGILE BY BEING AGILE

For anyone who isn't familiar with agile, here's a short review. Agile teams are best suited to innovation—that is, the profitable application of creativity to improve products and services, processes, or business models. They are small and multidisciplinary. Confronted with a large, complex problem, they break it into modules, develop solutions to each component through rapid prototyping and tight feedback loops, and integrate the solutions into a coherent whole. They place more value on adapting to change than on sticking to a plan, and they hold themselves accountable for outcomes (such as growth, profitability, and customer loyalty), not outputs (such as lines of code or number of new products).

Conditions are ripe for agile teams in any situation where problems are complex, solutions are at first unclear, project requirements are likely to change, close collaboration with end users is feasible, and creative teams will outperform command-and-control groups. Routine operations such as plant maintenance, purchasing, and accounting are less fertile ground. Agile methods caught on first in IT departments and are now widely used in software development. Over time they have spread into functions such as product development, marketing, and even HR. (See "Embracing Agile," HBR, May 2016, and "HR Goes Agile," HBR, March–April 2018.)

Agile teams work differently from chain-of-command bureaucracies. They are largely self-governing: Senior leaders tell team members where to innovate but not how. And the teams work closely with customers, both external and internal. Ideally, this puts responsibility for innovation in the hands of those who are closest to customers. It reduces layers of control and approval, thereby speeding up work and increasing the teams' motivation. It also frees up senior leaders to do what only they can do: create and communicate long-term visions, set and sequence strategic priorities, and build the organizational capabilities to achieve those goals.

When leaders haven't themselves understood and adopted agile approaches, they may try to scale up agile the way they have attacked other change initiatives: through top-down plans and directives. The track record is better when they behave like an agile team. That means viewing various parts of the organization as their customers—people and groups whose needs differ, are probably misunderstood, and will evolve as agile takes hold. The executive team sets priorities and sequences opportunities to improve those customers' experiences and increase their success. Leaders plunge in to solve problems and remove constraints rather than delegate that work to subordinates. The agile leadership team, like any other agile team, has an "initiative owner" who is responsible for overall results and a facilitator who coaches team members and helps keep everyone actively engaged.

Bosch, a leading global supplier of technology and services with more than 400,000 associates and operations in 60-plus countries, took this approach. As leaders began to see that traditional top-down management was no longer effective in a fast-moving, globalized world, the company became an early adopter of agile methods. But different business areas required different approaches, and Bosch's first attempt to implement what it called a "dual organization"—one in which hot new businesses were run with agile teams while traditional functions were left out of the action—compromised the goal of a holistic transformation. In 2015 members of the board of management, led by CEO Volkmar Denner, decided to build a more unified approach to agile teams. The board acted as a steering committee and named Felix Hieronymi, a software engineer turned agile expert, to guide the effort.

At first Hieronymi expected to manage the assignment the same way Bosch managed most projects: with a goal, a target completion date, and regular status reports to the board. But that approach felt inconsistent with agile principles, and the company's divisions were just too skeptical of yet another centrally organized program. So the team shifted gears. "The steering committee turned into a working committee," Hieronymi told us. "The discussions got far more interactive." The team compiled and rank-ordered a backlog of corporate priorities that was regularly updated, and it focused on steadily removing companywide barriers to greater agility. Members fanned out to engage division leaders in dialogue. "Strategy evolved from an annual project to a continuous process," Hieronymi says. "The members of the management board divided themselves into small agile teams and tested various approaches—some with a 'product owner' and an 'agile master'—to tackle tough problems or work on fundamental topics. One group, for instance, drafted the 10 new leadership principles released in 2016. They personally experienced the satisfaction of increasing speed and effectiveness. You can't gain this experience by reading a book." Today Bosch operates with a mix of agile teams and traditionally structured units. But it reports that nearly all areas have adopted agile values, are collaborating more effectively, and are adapting more quickly to increasingly dynamic marketplaces.

GETTING AGILE ROLLING

At Bosch and other advanced agile enterprises, the visions are ambitious. In keeping with agile principles, however, the leadership team doesn't plan every detail in advance. Leaders recognize that they do not yet know how many agile teams they will require, how quickly they should add them, and how they can address bureaucratic constraints without throwing the organization into chaos. So they typically launch an initial wave of agile teams, gather data on the value those teams create and the constraints they face, and then decide whether, when, and how to take the next step. This lets them weigh the value of increasing agility (in terms of financial results, customer outcomes, and employee performance) against its costs (in terms of both financial investments and organizational challenges). If the benefits outweigh the costs, leaders continue to scale up agile—deploying another wave of teams, unblocking constraints in less agile parts of the organization, and repeating the cycle. If not, they can pause, monitor the market environment, and explore ways to increase the value of the agile teams already in place (for instance, by improving the prioritization

IN BRIEF

THE AMBITION
To go from a handful of agile innovation teams in a function like software development to scores, even hundreds, throughout your company—to make agile the dominant way you operate

THE CHALLENGES
Figuring out where to start and how fast and far to go, deciding which functions can and should be converted to agile teams and which should not, and preventing slow-moving bureaucracies from impeding those that do convert

THE SOLUTION
Leaders should use agile methods themselves and create a *taxonomy of opportunities* to set priorities and break the journey into small steps. Workstreams should be modularized and then seamlessly integrated. Functions not reorganized into agile teams should learn to operate with agile values. The annual budgeting process should be complemented with a VC-like approach to funding.

of work or upgrading prototyping capabilities) and decrease the costs of change (by publicizing agile successes or hiring experienced agile enthusiasts).

To get started on this test-and-learn cycle, leadership teams typically employ two essential tools: a taxonomy of potential teams and a sequencing plan reflecting the company's key priorities. Let's first look at how each can be employed and then explore what more is needed to tackle large-scale, long-term agile initiatives.

Create a taxonomy of teams. Just as agile teams compile a backlog of work to be accomplished in the future, companies that successfully scale up agile usually begin by creating a full taxonomy of opportunities. Following agile's modular approach, they may break the taxonomy into three components—customer experience teams, business process teams, and technology systems teams—and then integrate them. The first component identifies all the experiences that could significantly affect external and internal customer decisions, behaviors, and satisfaction. These can usually be divided into a dozen or so major experiences (for example, one of a retail customer's major experiences is to buy and pay for a product), which in turn can be divided into dozens of more-specific experiences (the customer may need to choose a payment method, use a coupon, redeem loyalty points, complete the checkout process, and get a receipt). The second component examines the relationships among these experiences and key business processes (improved checkout to reduce time in lines, for instance), aiming to reduce overlapping responsibilities and increase collaboration between process teams and customer experience teams. The third focuses on developing technology systems (such as better mobile-checkout apps) to improve the processes that will support customer experience teams.

The taxonomy of a $10 billion business might identify anywhere from 350 to 1,000 or more potential teams. Those numbers sound daunting, and senior executives are often loath even to consider so much change ("How about if we try two or three of these things and see how it goes?"). But the value of a taxonomy is that it encourages exploration of a transformational vision while breaking the journey into small steps that can be paused, turned, or halted at any time. It also helps leaders spot constraints. Once you've identified the teams you could launch and the sorts of people you would need to staff them, for instance, you need to ask: Do we have those people? If so, where are they? A taxonomy reveals your talent gaps and the kinds of people you must hire or retrain to fill them. Leaders can also see how each potential team fits into the goal of delivering better customer experiences.

USAA has more than 500 agile teams up and running and plans to add 100 more in 2018. The taxonomy is fully visible to everyone across the enterprise. "If you don't have a really good taxonomy, you get redundancy and duplication," COO Carl Liebert told us. "I want to walk into an auditorium and ask, 'Who owns the member's change-of-address experience?' And I want a clear and confident response from a team that owns that experience, whether a member is calling us, logging into our website on a laptop, or using our mobile app. No finger-pointing. No answers that begin with 'It's complicated.'"

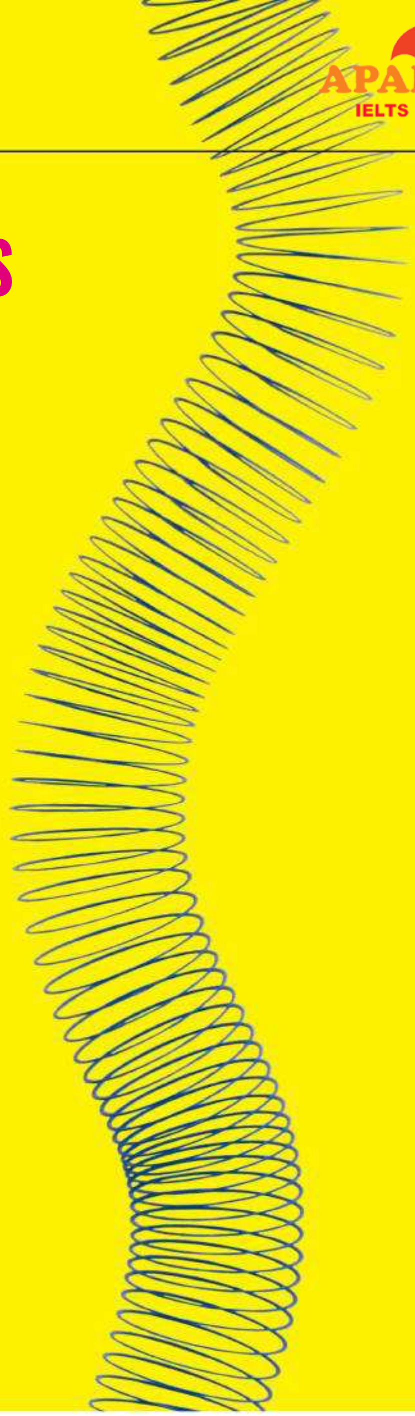
USAA's taxonomy ties the activities of agile teams to the people responsible for business units and product lines. The goal is to ensure that managers responsible for specific parts of the P&L understand how cross-functional teams will influence their results. The company has senior leaders who act as general managers in each line of business and are fully accountable for business results. But those leaders rely on customer-focused, cross-organizational teams to get much of the work done. The company also depends on technology and digital resources assigned to the experience owners; the goal here is to ensure that business leaders have the end-to-end resources to deliver the outcomes they have committed to. The intent of the taxonomy is to clarify how to engage the right people in the right work without creating confusion. This kind of link is especially important when hierarchical organizational structures do not align with customer behaviors. For example, many companies have separate structures and P&Ls for online and offline operations—but customers want seamlessly integrated omnichannel experiences. A clear taxonomy that launches the right cross-organizational teams makes such alignment possible.

Sequence the transition. Taxonomy in hand, the leadership team sets priorities and sequences initiatives. Leaders must consider multiple criteria, including strategic importance, budget limitations, availability of people, return on investment, cost of delays, risk levels, and interdependencies among teams. The most important—and the most frequently overlooked—are the pain points felt by customers and employees on the one hand and the organization's capabilities and constraints on the other. These determine the right balance between how fast the rollout should proceed and how many teams the organization can handle simultaneously.

A few companies, facing urgent strategic threats and in need of radical change, have pursued big-bang, everything-at-once deployments in some units. For example, in 2015 ING Netherlands anticipated rising customer demand for digital solutions and increasing incursions by new digital competitors ("fintechs"). The management team decided to move aggressively. It dissolved the organizational structures of its most innovative functions, including IT development, product management, channel management, and marketing—essentially abolishing everyone's job. Then it created small agile "squads" and required nearly 3,500 employees to reapply for 2,500 redesigned positions on those squads. About 40% of the people filling the positions had to learn new jobs, and all had to profoundly change their mindset. (See "One Bank's Agile Team Experiment," HBR, March–April 2018.)

But big-bang transitions are hard. They require total leadership commitment, a receptive culture, enough talented and experienced agile practitioners to staff hundreds of teams without depleting other capabilities, and highly prescriptive instruction manuals to align everyone's approach. They also require a high tolerance of risk, along with contingency plans to deal with unexpected breakdowns. ING continues to iron out wrinkles as it expands agile throughout the organization.

BIG-BANG TRANSITIONS ARE HARD. IT'S OFTEN BETTER TO ROLL OUT AGILE IN SEQUENCED STEPS, WITH EACH UNIT MATCHING THE IMPLEMENTATION OF OPPORTUNITIES TO ITS CAPABILITIES.



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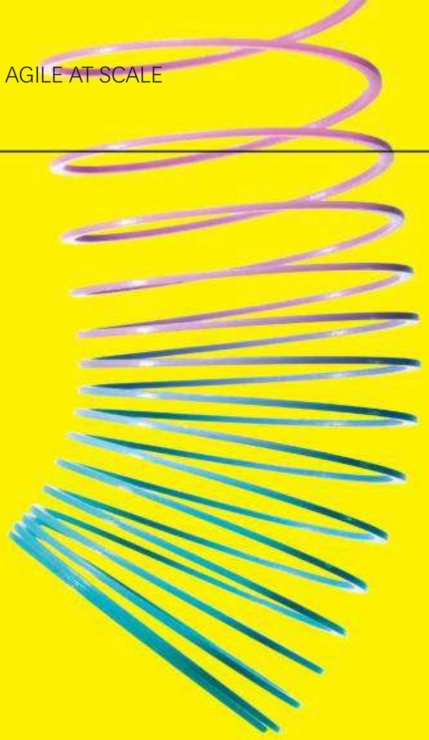
Companies short on those assets are better off rolling out agile in sequenced steps, with each unit matching the implementation of opportunities to its capabilities. At the beginning of its agile initiative, the advanced technology group at 3M Health Information Systems launched eight to 10 teams every month or two; now, two years in, more than 90 teams are up and running. 3M's Corporate Research Systems Lab got started later but launched 20 teams in three months.

Whatever the pace or endpoint, results should begin showing up quickly. Financial results may take a while—Jeff Bezos believes that most initiatives take five to seven years to pay dividends for Amazon—but positive changes in customer behavior and team problem solving provide early signs that initiatives are on the right track. "Agile adoption has already enabled accelerated product deliveries and the release of a beta application six months earlier than originally planned," says Tammy Sparrow, a senior program manager at 3M Health Information Systems.

Division leaders can determine the sequencing just as any agile team would. Start with the initiatives that offer potentially the greatest value and the most learning. SAP, the enterprise software company, was an early scaler of agile, launching the process a decade ago. Its leaders expanded agile first in its software development units—a highly customer-centric segment where they could test and refine the approach. They established a small consulting group to train, coach, and embed the new way of working, and they created a results tracker so that everyone could see the teams' gains. "Showing concrete examples of impressive productivity gains from agile created more and more pull from the organization," says Sebastian Wagner, who was then a consulting manager in that group. Over the next two years the company rolled out agile to more than 80% of its development organizations, creating more than 2,000 teams. People in sales and marketing saw the need to adapt in order to keep up, so those areas went next. Once the front end of the business was moving at speed, it was time for the back end to make the leap, so SAP shifted its group working on internal IT systems to agile.

Too many companies make the mistake of going for easy wins. They put teams into offsite incubators. They intervene to create easy workarounds to systemic obstacles. Such coddling increases the odds of a team's success, but it doesn't produce the learning environment or organizational changes necessary to



LEADERSHIP TEAMS NEED TO INSTILL AGILE VALUES THROUGHOUT THE ENTERPRISE, INCLUDING THE PARTS THAT DO NOT ORGANIZE INTO AGILE TEAMS.

scale dozens or hundreds of teams. A company's early agile teams carry the burden of destiny. Testing them, just like testing any prototype, should reflect diverse, realistic conditions. Like SAP, the most successful companies focus on vital customer experiences that cause the greatest frustrations among functional silos.

Still, no agile team should launch unless and until it is ready to begin. *Ready* doesn't mean planned in detail and guaranteed to succeed. It means that the team is:

- focused on a major business opportunity with a lot at stake
- responsible for specific outcomes
- trusted to work autonomously—guided by clear decision rights, properly resourced, and staffed with a small group of multidisciplinary experts who are passionate about the opportunity
- committed to applying agile values, principles, and practices
- empowered to collaborate closely with customers
- able to create rapid prototypes and fast feedback loops
- supported by senior executives who will address impediments and drive adoption of the team's work

Following this checklist will help you plot your sequence for the greatest impact on both customers and the organization.

Master large-scale agile initiatives. Many executives have trouble imagining that small agile teams can attack large-scale, long-term projects. But in principle there is no limit to the number of agile teams you can create or how large the initiative can be. You can establish "teams of teams" that work on related initiatives—an approach that is highly scalable. Saab's aeronautics business, for instance, has more than 100 agile teams operating across software, hardware, and fuselage for its Gripen fighter jet—a $43 million item that is certainly one of the most complex products in the world. It coordinates through daily team-of-teams stand-ups. At 7:30 AM each frontline agile team holds a 15-minute meeting to flag impediments, some of which cannot be resolved within that team. At 7:45 the impediments requiring coordination are escalated to a team of teams, where leaders work to either settle or further escalate issues. This approach continues, and by 8:45 the executive action team has a list of the critical issues it must resolve to keep progress on track. Aeronautics also coordinates its teams through a common rhythm of three-week sprints, a project master plan that is treated as a living document, and the colocation of traditionally disparate parts of the organization—for instance, putting test pilots and simulators with development teams. The results are dramatic: IHS Jane's has deemed the Gripen the world's most cost-effective military aircraft.

BUILDING AGILITY ACROSS THE BUSINESS

Expanding the number of agile teams is an important step toward increasing the agility of a business. But equally important is how those teams interact with the rest of the organization. Even the most advanced agile enterprises—Amazon, Spotify, Google, Netflix, Bosch, Saab, SAP, Salesforce, Riot Games, Tesla, and SpaceX, to name a few—operate with a mix of agile teams and traditional structures. To ensure that bureaucratic functions don't hamper the work of agile teams or fail to adopt and commercialize the innovations developed by those teams, such companies constantly push for greater change in at least four areas.

Values and principles. A traditional hierarchical company can usually accommodate a small number of agile teams sprinkled around the organization. Conflicts between the teams and conventional procedures can be resolved through personal interventions and workarounds. When a company launches several

YAMADA TARO/GETTY IMAGES

hundred agile teams, however, that kind of ad hoc accommodation is no longer possible. Agile teams will be pressing ahead on every front. Traditionally structured parts of the organization will fiercely defend the status quo. As with any change, skeptics can and will produce all kinds of antibodies that attack agile, ranging from refusals to operate on an agile timetable ("Sorry, we can't get to that software module you need for six months") to the withholding of funds from big opportunities that require unfamiliar solutions.

So a leadership team hoping to scale up agile needs to instill agile values and principles throughout the enterprise, including the parts that do not organize into agile teams. This is why Bosch's leaders developed new leadership principles and fanned out throughout the company: They wanted to ensure that everyone understood that things would be different and that agile would be at the center of the company's culture.

Operating architectures. Implementing agile at scale requires modularizing and then seamlessly integrating workstreams. For example, Amazon can deploy software thousands of times a day because its IT architecture was designed to help developers make fast, frequent releases without jeopardizing the firm's complex systems. But many large companies, no matter how fast they can code programs, can deploy software only a few times a day or a week; that's how their architecture works.

Building on the modular approach to product development pioneered by Toyota, Tesla meticulously designs interfaces among the components of its cars to allow each module to innovate independently. Thus the bumper team can change anything as long as it maintains stable interfaces with the parts it affects. Tesla is also abandoning traditional annual release cycles in favor of real-time responses to customer feedback. CEO Elon Musk says that the company makes about 20 engineering changes a week to improve the production and performance of the Model S. Examples include new battery packs, updated safety and autopilot hardware, and software that automatically adjusts the steering wheel and seat for easier entry and exit.

In the most advanced agile enterprises, innovative product and process architectures are attacking some of the thorniest organizational constraints to further scaling. Riot Games, the developer of the wildly successful multiplayer online battle arena League of Legends, is redesigning the interfaces between agile teams and support-and-control functions that operate conventionally, such as facilities, finance, and HR. Brandon Hsiung, the product lead for this ongoing initiative, says it involves at least two key steps. One is shifting the functions' definition of their customers. "Their customers are not their functional bosses, or the CEO, or even the board of directors," he explains. "Their customers are the development teams they serve, who ultimately serve our players." The company instituted Net Promoter surveys to collect feedback on whether those customers would recommend the functions to others and made it plain that dissatisfied customers could sometimes hire outside providers. "It's the last thing we want to happen, but we want to make sure our functions develop world-class capabilities that could compete in a free market," Hsiung says.

Riot Games also revamped how its corporate functions interact with its agile teams. Some members of corporate functions may be embedded in agile teams, or a portion of a function's capacity may be dedicated to requests from agile teams. Alternatively, functions might have little formal engagement with the teams after collaborating with them to establish certain boundaries. Says Hsiung: "Silos such as real estate and learning and development might publish philosophies, guidelines, and rules and then say, 'Here are our guidelines. As long as you operate within them, you can go crazy; do whatever you believe is best for our players.'"

In companies that have scaled up agile, the organization charts of support functions and routine operations generally look much as they did before, though often with fewer management layers and broader spans of control as supervisors learn to trust and empower people. The bigger changes are in the ways functional departments work. Functional priorities are necessarily more fully aligned with corporate strategies. If one of the company's key priorities is improving customers' mobile experience, that can't be number 15 on finance's funding list or HR's hiring list. And departments such as legal may need buffer capacity to deal with urgent requests from high-priority agile teams.

Over time even routine operations with hierarchical structures are likely to develop more-agile mindsets. Of course, finance departments will always manage budgets, but they don't need to keep questioning the decisions of the owners of agile initiatives. "Our CFO constantly shifts accountability to empowered agile teams," says Ahmed Sidky, the head of development management at Riot Games. "He'll say, 'I am not here to run the finances of the company. You are, as team leaders. I'm here in an advisory capacity.' In the day-to-day organization, finance partners are embedded in every team. They don't control what the teams do or don't do. They are more like finance coaches who ask hard questions and provide deep expertise. But ultimately it's the team leader who makes decisions, according to what is best for Riot players."

Some companies, and some individuals, may find these trade-offs hard to accept and challenging to implement. Reducing control is always scary—until you do so and find that people are happier and success rates triple. In a recent Bain survey of nearly 1,300 global executives, more respondents agreed with this statement about management than with any other: "Today's business leaders must trust and empower people, not command and control them." (Only 5% disagreed.)

Talent acquisition and motivation. Companies that are scaling up agile need systems for acquiring star players and motivating them to make teams better. (Treat your stars unfairly, and they will bolt to a sexy start-up.) They also need to unleash the wasted potential of more-typical team members and build commitment, trust, and joint accountability for outcomes. There's no practical way to do this without changing HR procedures. A company can no longer hire purely for expertise, for instance; it now needs expertise combined with enthusiasm for work on a collaborative team. It can't evaluate people according to whether they hit individual objectives; it now needs to look at their performance on agile teams and at team members' evaluations of one another. Performance assessments typically shift from an annual basis to a system that provides relevant feedback and coaching every few weeks or months. Training and coaching programs encourage the development of cross-functional skills customized to the needs of individual employees. Job titles matter less and change less frequently with self-governing teams and fewer hierarchical levels. Career paths show how product owners—the individuals who set the vision and own the results of an agile team—can continue their personal development, expand their influence, and increase their compensation.

Companies may also need to revamp their compensation systems to reward group rather than individual accomplishments. They need recognition programs that celebrate contributions immediately. Public recognition is better than confidential cash bonuses at bolstering agile values—it inspires recipients to improve even further, and it motivates others to emulate the recipients' behaviors. Leaders can also reward "A" players by engaging them in the most vital opportunities, providing them with the most advanced tools and the greatest possible freedom, and connecting them with the most talented mentors in their field.

Annual planning and budgeting cycles. In bureaucratic companies, annual strategy sessions and budget negotiations are powerful tools for aligning the organization and securing commitments to stretch goals. Agile practitioners begin with different assumptions. They see that customer needs change frequently and that breakthrough insights can occur at any time. In their view, annual cycles constrain innovation and adaptation: Unproductive projects burn resources until their budgets run out, while critical innovations wait in line for the next budget cycle to compete for funding.

In companies with many agile teams, funding procedures are different. Funders recognize that for two-thirds of successful innovations, the original concept will change significantly during the development process. They expect that teams will drop some features and launch others without waiting for the next annual cycle. As a result, funding procedures evolve to resemble those of a venture capitalist. VCs typically view funding decisions as opportunities to purchase options for further discovery. The objective is not to instantly create a large-scale business but, rather, to find a critical component of the ultimate solution. This leads to a lot of apparent failures but accelerates and reduces the cost of learning. Such an approach works well in an agile enterprise, vastly improving the speed and efficiency of innovation.

COMPANIES THAT SUCCESSFULLY scale up agile see major changes in their business. Scaling up shifts the mix of work so that the business is doing more innovation relative to routine operations. The business is better able to read changing conditions and priorities, develop adaptive solutions, and avoid the constant crises that so frequently hit traditional hierarchies. Disruptive innovations will come to feel less disruptive and more like adaptive business as usual. The scaling up also brings agile values and principles to business operations and support functions, even if many routine activities remain. It leads to greater efficiency and productivity in some of the business's big cost centers. It improves operating architectures and organizational models to enhance coordination between agile teams and routine operations. Changes come on line faster and are more responsive to customer needs. Finally, the business delivers measurable improvements in outcomes—not only better financial results but also greater customer loyalty and employee engagement.

Agile's test-and-learn approach is often described as incremental and iterative, but no one should mistake incremental development processes for incremental thinking. SpaceX, for example, aims to use agile innovation to begin transporting people to Mars by 2024, with the goal of establishing a self-sustaining colony on the planet. How will that happen? Well, people at the company don't really know...yet. But they have a vision that it's possible, and they have some steps in mind. They intend to dramatically improve reliability and reduce expenses, partly by reusing rockets much like airplanes. They intend to improve propulsion systems to launch rockets that can carry at least 100 people. They plan to figure out how to refuel in space. Some of the steps include pushing current technologies as far as possible and then waiting for new partners and new technologies to emerge.

That's agile in practice: big ambitions and step-by-step progress. It shows the way to proceed even when, as is so often the case, the future is murky.

HBR Reprint R1803F

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HOW SUCCESSFUL CEOs MANAGE THEIR MIDDLE ACT

A STRONG START TAKES YOU ONLY SO FAR.

BY RODNEY ZEMMEL, MATT CUDDIHY, AND DENNIS CAREY

Every leader understands the importance of the first hundred days or the first year in office—the period during which one must assess and diagnose, formulate a vision and a strategy, and create the early wins that build trust and legitimacy. And dozens of books and articles offer guidance about how CEOs in their final months on the job should approach their primary responsibility: helping develop and select a successor and then smoothly handing over power.

Very little attention has been focused on the time between those stages—on how chief executives can make the most of the middle years of their tenure. How can they build on early successes? How can they continue to have an impact? In what ways should they shift their priorities? Should they spend time with different stakeholders? Should they engage the organization in different ways? And how should their mindsets and ways of working evolve?

To find answers, we identified 146 CEOs of large-cap companies who left their jobs during the period from 2011 to 2016 after serving at least six years—the median term for an S&P 500 chief executive, meaning that the CEOs in our group all had a longer-than-average run. Next we pinpointed a subset whose companies outperformed their industries during their time at the helm or who had high overall total shareholder return performance. We conducted detailed, structured interviews with 22 of them, asking, among other things, how their priorities, mindsets, and approaches to leadership had evolved; what strategic and organizational moves they had focused on in mid-tenure; and what they wish they had done differently. (Itai Miller and Harish Soundararajan assisted with the identification of CEOs and the analysis of responses.)

Many of our interview subjects said they hadn't consciously approached their tenure in terms of phases, but after reflecting on our questions, they recognized that it did have distinct acts. And it became clear that, as in a play, a strong first act does not necessarily guarantee success in act 2. "There are significant differences between the early phases of the CEO run, the middle term, and the latter stages," former Cisco

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CEO John Chambers (in office from 1995 to 2015) told us—a sentiment echoed by many other leaders. "My management style evolved at each of the stages, and I had to reinvent myself at each one."

At the start of midtenure—typically, two or three years in—high-performing CEOs made a conscious decision to reset by reexamining the company's context, reassessing their agenda, and continuing to actively shape the organization and the strategy. "Organizations tend to be echo chambers," said former Home Depot CEO Frank Blake (2007–2014). "You're not going to mid-course-correct yourself if you don't candidly reflect on where you went wrong and, more important, *why* you went wrong."

Five themes emerged as essential to success in leaders' middle years: the importance of resetting ambitions to avoid losing momentum; the need to attack silos and fix broken processes; the imperative of rejuvenating leadership talent; the value of building internal and external mechanisms for dissent and disruptive ideas; and the need to deploy leadership capital on bold moves that could help the company succeed over a long horizon.

In addition to recognizing these specific themes, leaders can find value in something simpler: viewing their tenure as a series of chapters rather than a single uninterrupted span.

IN BRIEF

THE ISSUE

New CEOs typically focus on implementing an agenda and achieving some early wins. But these opening moves are often followed by an act 2—one that features a different operating style and a new set of goals.

THE RESEARCH

The authors identified 146 CEOs of large-cap companies who exited during the period from 2011 to 2016 and had longer-than-average tenures. They pinpointed a subset of high performers and conducted structured interviews with 22 of them.

THE FINDINGS

During their second act, successful CEOs work to raise the company's level of ambition, attack silos and broken processes, rejuvenate talent, create mechanisms for dissent, and invest political capital in long-term bets. Beyond those specifics, leaders often benefit from viewing their tenure as a series of chapters rather than an undivided span.

KEEP RAISING THE LEVEL OF AMBITION

At the start of their tenure, in what can be a tumultuous period, CEOs tend to address the most urgent issues and make their mark on the company. By midterm, as stability sets in, the organization risks sliding back into what former DuPont CEO Ellen Kullman (2009–2015) calls "the old normal." Having assumed leadership during the global financial crisis, Kullman instituted wide-ranging portfolio and operating changes, but once the crisis had passed, the pace of organizational change began to flag. So she traveled to plants and offices around the world to reinforce the new vision and formed a corporate planning group to conduct inside-outside assessments of each business. In the middle years as CEO, Kullman told us, "you've got to infuse people with the will to continue to focus on the changing environment and say that if you aren't moving, somebody is going to run you over."

Several CEOs found it challenging to maintain the momentum of the early years. "I recognized that I was beginning to play defense," said former Akamai Technologies CEO Paul Sagan (2005–2013). "There is a risk of being cautious, because the more successful you've been, in theory the more you have to lose by overplaying your hand." Yet especially in high-growth sectors such as technology, where you are one bad product cycle away from losing leadership, constant reinvention is essential.

It helps to regularly review the business with fresh eyes. Gordon Moore and Andy Grove, who led Intel in the 1980s and 1990s, famously imagined getting fired by the board and asking themselves what a new CEO would do. Their astonishing (but correct) answer: Get out of memory chips—the technology that had defined the business. In a similar vein, former Safeway CEO Steve Burd (1993–2013) recalled that the board suggested he come to work one Monday as if it were his first day on the job. "It caused me to dismiss the existing guidance, take out a clean piece of paper, and develop the next leg of the growth strategy," he said. Burd formulated a new plan—centered on remodeling stores to better fit consumers' lifestyles and repositioning the company in relation to its competitors—undertook a large acquisition, and launched several spin-off businesses.

As they stretch their aspirations and those of their people, CEOs should guard against organizational exhaustion. "There's an old principle that if the big gear at the top of the organization makes a half turn, the small gears low in the organization have to spin four times," said Sandy Cutler, a former CEO of the power management company Eaton (2000–2016). "Organizations have to be careful at the top not to constantly change the game plan." At Eaton, whose businesses have long product cycles, units' plans were "certified" at regular intervals according to a central set of processes and benchmarks called the Eaton Business System. "They knew how many years they had between their certifications," Cutler said. "We set that all in place so that people could do multiyear planning in terms of improvement opportunities, resources, and capital expenditures versus having an environment where every 18 months the rules changed."

In short, thinking ever more ambitiously means continuing to make strategic moves that will keep the company abreast of its changing environment—not engaging in perpetual motion for the sake of change.

ATTACK SILOS AND BROKEN PROCESSES

New CEOs generally recognize organizational problems early on and make changes to structure and talent to address them. However, when it comes to tackling ingrained practices—the company's way of working that cuts more deeply and broadly through the organization—we found that leaders devote more time during midtenure.

Tom Watjen recalled arriving for high-level meetings at Unum, the insurance company he led (2003–2015), to find his top 30 executives in cliquish groups with their regional and functional colleagues—"like at a high school dance," he said. It was essential to get the groups to trust one another, share ideas, and focus on external rather than intramural competition. "But you can't just send out a memo that says, 'Hey, you guys have got to talk to one another,'" Watjen told us. "You have to find people for whom it's second nature to work across different businesses."

CEOs sometimes find that to drive big change initiatives in their early years, they need strong lieutenants. But when those lieutenants succeed, they can be protective of their wins, even territorial, creating dynamics that by midterm may generate mistrust among different parts of the organization and reinforce silos. To break down walls and eliminate disparate agendas, several leaders used mechanisms such as compensation structures focused on overall corporate goals rather than on individual unit results.

To shatter the silos delineating Unum's three core businesses, Watjen used his middle years to "cross-pollinate" ideas and experiences. He moved executives across units and worked to connect corporate functions to the needs of the operating businesses. For instance, he pushed finance to create metrics, such as capital allocations and expense structures, that would encourage the business units to push for greater efficiencies. Finance executives' role isn't just to deliver the numbers, he reminded those managers. "Your job is to help your business colleagues get the information to understand what's happening in their business."

It's easy for new leaders who are focused on the big picture to overlook key internal processes. Hence, as CEOs enter the middle years, fixing glitches in the "operating system"—which can mean anything from establishing consistent procedures for assessing talent to systematizing the approach to budgeting—needs to become a priority. Former Stanley Black & Decker CEO John Lundgren (2004–2016) worked with his team to refine and formalize the company's operating system, with an emphasis on measuring individual performance and linking compensation to key metrics such as margin accretion and cash conversion. "We gave management the tools," he said. "It was about operational efficiency and eliminating complexity." Getting the systems ingrained took time. Lundgren recalled that a board director told him, "You'll know they're working when you're walking on the factory floor and you ask the first line supervisor what the working capital turns were that week, and he can tell you."

John Chambers noted that in the intermediate phase of his tenure, Cisco built "playbooks" for processes such as M&A. "Having a process that could be repeated quickly and easily enabled us to move fast and to scale," he said. This allowed Chambers and his top team to enter the transaction process at far fewer points. "We could run that play with tremendous speed—we could decide to acquire a company on a Thursday and announce it on Monday morning," he said, adding, "Now the CEO doesn't even have to be involved other than meeting with the other CEO."

This operational fine-tuning, although vital to company performance, is largely invisible to external constituencies, including investors. The impact doesn't quickly show up in the stock price or constitute a visible "win," which may partly explain why many CEOs leave the task to midtenure.

REJUVENATE TALENT

Most new CEOs shake up or recast the top leadership team. Successful long-term leaders recognize that adjustments must continue in the midterm. In fact, some we interviewed made more executive changes then than they had early on.

"A mistake a lot of people make is to get complacent about assessing talent," observed Edward Breen, a former CEO of the security systems firm Tyco International (2002–2012). In the first year or two, a leader focuses on building the right team. By midtenure, "you know everybody, you've gotten to know their families," he said. "But people go through different phases, and that person may not be right anymore or may have lost energy." Breen saw to it that Tyco assessed top leaders annually, asking, "Do I have

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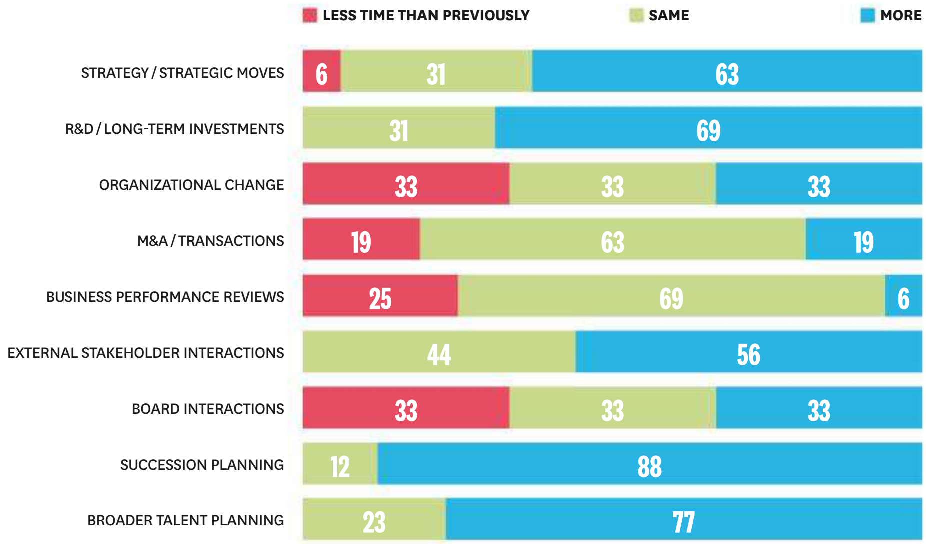
HOW CEOs SPEND THEIR TIME DURING ACT 2

The 22 CEOs we interviewed shifted priorities when they reached the middle of their tenure. Almost 90% said they spent more time on succession planning than previously; nearly 80% spent more time on broader talent planning; and almost 70% focused more heavily on R&D and long-term investments. Notably, these CEOs remained vigilant about refreshing the strategy and capitalizing on opportunities. Although the time spent on business performance reviews did not radically change, they reported focusing on different questions during those reviews—concentrating more on long-term direction than on current performance.



NOTE BECAUSE OF ROUNDING, SOME CATEGORIES DO NOT ADD UP TO 100%.

a team that can win the Super Bowl?" The process was formalized and cascaded down through the company, and every year the leaders at each level acted on the evaluations. Tyco also conducted monthly operating reviews, which Breen found to be an excellent way of appraising his team's ambition and energy levels.

Frits van Paasschen, a former CEO of Starwood Hotels & Resorts (2007–2015), recalled a moment about two and a half years into his tenure when, having established a more global and digital focus, he felt the need to review his leadership team. It was a kind of "re-recruitment process," he told us, during which he asked himself: Is this person going to help carry us forward, given what the strategy is now? Leaders naturally hesitate to move people out of their positions, but many of those we interviewed regretted waiting too long to make changes.

Several CEOs noted the importance of transitioning during the midterm from a largely directive role to one of support and mentoring in order to unleash their team's latent potential. In essence, they shifted from team captain to coach. Van Paasschen, for example, met often with junior leaders working on long-term projects—not only to provide direction but also to show them that they had his support. He began bringing high-potential employees on trips to Starwood's overseas properties to expose them to the operations and provide opportunities for informal interaction. And he fostered more-casual communication. "We moved from progress and KPI reviews to more of a coaching conversation," he said. "'How's it going? What do you need?'"

Most boards say they start developing leadership succession plans—an important part of talent rejuvenation—as soon as a new CEO comes on board. But in our experience, and in that of many leaders we interviewed, the effort really gains traction in a CEO's middle phase. At midtenure as CEO of McCormick & Company, the spice and flavorings manufacturer, Alan Wilson (2008–2016) undertook a detailed talent assessment one level below the leadership bench. "I saw it as a five-year process," he told us. "You have to look two moves out in terms of the experiences and skills people need to develop. The people you identify in the early years aren't necessarily the ones who will go the distance."

SEVERAL CEOs TRANSITIONED FROM A DIRECTIVE ROLE TO ONE OF SUPPORT AND MENTORING.

BUILD MECHANISMS FOR DISSENT AND DISRUPTIVE IDEAS

CEOs in midtenure worry about becoming predictable or shut off from new ideas. "After three or four years people have an understanding of how you respond in different scenarios," said Frank Blake, the former Home Depot CEO. "Everybody knows what you want to hear, so that's what they tell you." He—like many others we spoke with—worked to avoid that pitfall.

For instance, early in his tenure Blake had closed a number of store formats that were underperforming. People continued to come up with new format ideas, but he tended to reject them, and by his midterm, employees had stopped making such recommendations. Blake recognized that this was a problem and took steps to emphasize his openness to all kinds of ideas. He began devoting more time to internal outreach, holding skip-level meetings and dinners with store associates. To invite candor, he would ask, "I understand that X isn't going so well. Why do you think that is?" More often than not, he says, the person would offer frank feedback.

Other CEOs also found ways to connect with the organizational grass roots. One relied on a project manager who was plugged into informal staff networks. Edward Ludwig, a former CEO of the medical technology company Becton, Dickinson (2000–2011), told us he would bring together a dozen trusted people from the level below his direct reports, give them a two-page summary of the company's strategy, and invite honest input. "You need to surround yourself with people who are willing to tell you the truth and create mechanisms where they *can* tell you the truth," he said. Just as important, "you need to demonstrate that you can act on their input intelligently and will not shoot the messenger."

It's critical for CEOs to seek new sources of advice at various stages of their tenure. Indeed, many leaders we interviewed changed the people they approached for input during midtenure in a conscious effort to broaden their peripheral vision. "It's about getting exposed and developing pattern recognition in new areas," said former eBay CEO John Donahoe (2008–2015), who spent at least half a day each week with leaders outside his immediate industry and circle. In particular, he reached out to entrepreneurs, bringing their insights to eBay while helping them with leadership concerns. Airbnb cofounder Brian Chesky, for example, gave Donahoe advice on design, product development, and innovation, and Donahoe helped Chesky with management issues. "What emerged was a mutual mentorship," Donahoe told us.

That said, the need for more outside input and the search for disruptive ideas should not mean carte blanche to spend time externally. Several CEOs cautioned against allowing such outreach to dilute the focus on the business. "A lot of times, people take a victory lap," said former Delta Air Lines CEO Richard Anderson (2007–2016). "Once you add the roundtables, chambers of commerce, the sell side [analysts], speaking engagements, suddenly you're part-time at your CEO job." Anderson asked two questions when choosing his external commitments: How will this help Delta? And what are the alternatives for how to spend my time? Every week he would review commitments for the year with his secretary. "You have two things: your wits and your time," he noted. "I got really good at managing the calendar."

SPEND LEADERSHIP CAPITAL ON BOLD, LONG-TERM MOVES

For certain major endeavors, such as big acquisitions lacking a quick payback, only a seasoned leader can marshal sufficient support. Having used their early years to build credibility with the board, investors, and employees—and gain confidence in their own leadership—successful midtenure CEOs can make those bold strategic moves. "It's your job to spend the political and leadership capital you've built to take more risks," said John Donahoe. "Pretend you've got only three years left. What do you want to get done? And what things can you uniquely do?"

Several CEOs placed large strategic bets or completed transformational deals in their middle years. Joe Papa, a former CEO of the pharmaceuticals manufacturer Perrigo (2006–2016), recalled having an epiphany while driving to work and seeing a Perrigo delivery truck headed to a customer site. "I realized it was all about getting more products on the truck, and it forced me to think about how to do that," he said. This insight led to the acquisition of PBM Holdings, an infant formula manufacturer, which Papa considers one of Perrigo's most successful deals. "I was able to do bolder things like this deal in year three because I had a better understanding of the real source of our competitive advantage," he said.

Susan Cameron, who served two terms as CEO of Reynolds American (2004–2011; 2014–2017), used the middle of her first stint to introduce products such as smokeless cigarettes and acquire a nicotine replacement therapy company. "In midtenure you have the opportunity to envisage a different enterprise and then to make some disposals and acquisitions to support that," she said. "Once you have developed confidence in yourself and your top team and are satisfied with the business plan and operating model, you need to dream and strategize about what could be."

Indeed, we've found that the longer a CEO's tenure is, the more he or she tends to shift attention to the kinds of bets that will involve longer paybacks but could help the company get ahead of trends and engage with a broader set of stakeholders. "Geoffrey Moore talks about making sure that things further out report much higher in the organization," said Paul Sagan, the former Akamai CEO. To ensure that such initiatives didn't get sidelined by shorter-term priorities, he explained, "I made sure the longer-term bets reported to me."

IN HER SEMINAL book *Passages,* Gail Sheehy described the distinct phases adults go through in their lives. A similar process happens during a CEO's tenure. "When I think about the midterm versus the early term, I see that the priorities became clearer," said John Russell, a former CEO of Consumers Energy (2010–2016). "When you first take over as CEO, a lot of things have to be done. You pull and push levers all the time. After two or three years it was very clear to me where those levers were and how to use them most effectively."

As our interviews demonstrate, a CEO's middle phase isn't just about reaping what was sown in the early years—nor is it about continuing to do what brought success then. Leaders need to look at the organization and the markets in which it plays with fresh eyes and keep evolving their strategy and approach to their team. They can't take their foot off the gas—if anything, they need to push down harder.

New CEOs who see their tenure as a series of chapters and calibrate their approach to each phase will most likely proceed in a methodical manner. "At the start, I had the view that we had to get everything done in two or three years, but then I realized it is a longer journey," said Brett White, a former CEO of the real estate brokerage CBRE (2005–2012). "So I developed more patience. It is generally an evolution, not a revolution." Having that patience may make your company more successful—now and after you leave—than the firms of counterparts who treat the job as a single undifferentiated span.

MANY CEOs CHANGED THE PEOPLE THEY ASKED FOR INPUT IN AN EFFORT TO BROADEN THEIR PERIPHERAL VISION.

HBR Reprint R1803G

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TALENT MANAGEMENT AND THE DUAL-CAREER COUPLE

RIGID TOURS OF DUTY ARE THE WRONG APPROACH TO DEVELOPMENT.

BY JENNIFER PETRIGLIERI

KOYA79/ISTOCK

IN BRIEF

THE PROBLEM
High potentials are increasingly committed to their partners' careers as well as their own, but most companies haven't figured out how to accommodate that commitment. They invest heavily in grooming star performers for leadership roles, only to have them resign when confronted with flexibility and mobility challenges. That's wreaking havoc on recruitment and retention.

THE SOURCE
Because "future leaders" are usually expected to advance in a certain way—often through set tours of duty around the globe—it can be difficult for members of dual-career couples to move ahead at work.

THE SOLUTION
Organizations can remove barriers to advancement by allowing people to develop in more-creative ways—through brief "job swaps," for example, or "commuter" roles. But often a culture change is needed. Instead of stigmatizing flexibility, companies must learn to embrace it.

As the head of a large manufacturing plant at a multinational conglomerate, an executive I'll call David had proved himself a competent, trustworthy manager. So when the presidency of one of the company's key businesses unexpectedly became vacant, the CEO sat David down to share the good news that he had been chosen for the role. He had earned it.

Sudden career announcements like this are actually pretty common. Even so, David was caught off guard and didn't know what to say. The head of HR—who was at the meeting—sensed his surprise. Though the offer may have come earlier than expected, she explained, his current boss had been consulted and supported the move. It was a golden opportunity for David, and everyone was rooting for him to succeed. He would have time to make all the necessary arrangements, the CHRO added, and the company would gladly help his family move to the other side of the country, where the business he would run was based. He would start in four weeks.

After asking a few questions and learning about the generous raise that would come with the promotion, David thanked the CEO and the CHRO warmly and promised to discuss the opportunity with his wife that evening. "Of course," they replied, smiling.

They were shocked when David turned down the offer the next day. He was committed to the company and to his career, he said, but he was also committed to his wife's career. She had a challenging final year to complete in her surgery residency program, and a move now would hurt her. David suggested various options—taking on the role at a later date, commuting for a period, or working remotely. The CEO rejected them all. "Leadership is about showing up," he snapped.

A joyful occasion had turned sour in less than 24 hours. The CEO was angry. The company had invested heavily in David. Where was his dedication when it counted, and how could he expect to advance if he was not willing to move for a leadership role? The CHRO was equally confused and upset by David's response. After all, she had introduced work-family policies and generous mobility allowances to support employees like him. David felt cornered. He had been presented with an untimely, rigid option, and now he was being punished for daring to try to negotiate it.

The company soon found another candidate for the job. David continued to perform well in his role, but things had changed. He felt that he was no longer on the top team's talent radar. Nine months later, when his wife, Helen, completed her residency and was again mobile, she and David put out feelers for career opportunities. David was immediately headhunted by a rival company to lead its largest business, in a city where Helen found a position at a prestigious hospital. David's career was back on track, and his wife's was launched. And David's old employer had lost a talented leader—after spotting him, grooming him, and offering him a plum role.

I learned about David from the CHRO, who told me that the company still had not figured out how best to manage the growing number of its employees who want to advance but also care deeply about their partners' careers. I've seen this again and again in my work over the past several years. Otilia Obodaru, of Rice University, and I have studied more than 100 dual-career couples across generations and organizational settings (interviewing both members of each couple), and I have conducted in-depth interviews with the heads of people strategy at 32 large companies in tech, health care, professional services, and other industries. I also work closely with the heads of talent and learning at companies that send executives to the management program I co-direct at INSEAD. Most talent VPs, I've found, are keenly aware of the rise of dual-career couples. Today, in almost half the two-parent households in the United States (compared with 31% in 1970), both parents work full-time. Still, companies struggle to anticipate and mitigate the effects on their talent pipelines. People in David's predicament resign after their employers have invested in them, and those stories spread like wildfire in organizations, prompting other dual-career high potentials to look for the nearest exit.

Companies tend to have fixed paths to leadership roles, with set tours of duty and long-held ideas about what ambition looks like.

The crux of the problem is that companies tend to have fixed paths to leadership roles, with set tours of duty and long-held ideas about what ambition looks like. That creates rigid barriers for employees—and recruitment and retention challenges for their employers, many of whom are failing to consider the whole person when mapping out high potentials' career trajectories. To reap the benefits of their investments in human capital, organizations must adopt new strategies for managing and developing talent. I'll describe them, but first let's take a closer look at why traditional approaches often fail.

THE TROUBLE WITH THE USUAL TALENT STRATEGIES

Although most companies deny having traditional career ladders, executives in midsize and large organizations are widely expected to cycle through a variety of divisions and functions en route to the executive suite. This talent-development model usually involves multiple relocations. It originated in the early 1980s, before technology had opened the door to efficient, productive virtual work. For the most part, talent was "unbounded" (my term). That is, spouses didn't have competing careers, so they managed home and family life, freeing up executives to meet their companies' demands.

Times have changed, of course, but most talent management programs are still designed as if every couple had a dedicated homemaker and the internet didn't exist. For executives whose partners have full careers, such programs create two major challenges (and, my research suggests, two top reasons to resign). They are:

The mobility challenge. Members of dual-career couples understand that they'll need to make multiple moves across functions and geographies if they want to ascend to senior roles—and they're not averse to that. But having to drop everything and move at a moment's notice forces them to choose which partner's career will lead and which will follow. These days, fewer couples are willing to make that trade-off.

Take Melissa and Craig, both of whom were managers in their companies' "future leader" programs. They had long harbored dreams of working abroad, but when Craig was offered a "now-or-never golden opportunity" in London, he turned it down. "Melissa

When executives see that people with flexible schedules are still working hard, they adjust their own ways of working—and change the culture.

could probably have found a job in London, but not at the same level and on the same track," he told me. "Equality is important to us, and we know that senior careers are uncertain. So we want to hedge against risk by balancing our careers. We need to move in a more planned way."

Eventually, the two did make an international move. First they agreed on a destination—Dubai—and then they launched parallel job searches. Melissa's interest in moving to the Middle East landed her an internal transfer and a boost in responsibilities. Craig's company was less keen on a transfer, but he found an exciting new role with a competitor.

Craig's company lost a talented manager to a rival not because he wasn't mobile but because it couldn't match mobility options to his needs. Even if he had accepted the London job, his employer might have paid a price in the long run. Expatriate assignments and geographic relocations are often cut short when an executive's partner struggles to adapt to a new community, for example, or can't find a suitable career opportunity. Because Craig secured a good job in Dubai, Melissa's expat assignment was more likely than many others to succeed.

The mobility challenge is exacerbated when organizations expect several moves in a short time frame, which is not unusual. At one global chemical company, for example, a new management acceleration program moves people through three functions—and to three locations around the world—within a year and a half. "You move every six months," the head of talent explained. This rounds out participants' experience and knowledge in an efficient way. But, she added, "it certainly doesn't work if you're in a dual-career couple or for anyone who doesn't want to drag their family around the world....So it stops a lot of great talent from even applying."

Even when managers are not enrolled in formal rotation programs, many companies expect their best people to spend no more than three years in any role before moving to a new challenge. Those who don't progress at that pace will look stagnant and perhaps be shown the door. "I'm dealing with a very talented woman who is going to lose her job," the vice president of HR at a global logistics firm lamented. "She's at the end of a three-year role, and she cannot relocate because of her husband's career. Rather than being flexible and saying, 'You can still live in Charlotte and commute to Atlanta three days a week,' her manager is saying, 'No, it's all or nothing. We'll just have to let her go.' It's frustrating. Retaining senior female talent is a key priority for us, but the business is stuck in this rigid way of operating."

I heard stories like this from about 40% of my research sample. It sounds crazy to set an arbitrary three-year limit on someone who is doing excellent work. But most companies assess executives on potential as well as performance—and people who don't want to move are dinged on potential, because they're perceived as lacking ambition. Thwarted advancement is the most likely outcome, particularly for junior and midlevel managers. But at senior levels, where fewer lateral moves are available, there's a great deal of pressure to "move up or out."

The flexibility challenge. Every family has tasks that must get done—buying groceries, making meals, taking the car in for maintenance and repairs, driving children to and from school and activities, and so on. In traditional couples, the noncareer partner assumes the lion's share of these responsibilities. For dual-career couples (even those who can afford to hire help), managing all this on top of work is a constant juggling act. As I studied these couples, it was clear that they do not want to work less, but they do need to work smarter and more flexibly.

Most leadership roles and paths, however, lack flexibility—and people who seek it are penalized. This can lead to what one executive, Emily, called the "'Whose job is more important today?' roulette." She and her partner, Jamal, had a finely tuned system: Emily dropped the kids at school in the morning and worked late in the evening, while Jamal did the opposite. However, when they hit a bump—sick kids, home repairs, elderly parents who needed help—the system broke down and frantic negotiations began. Even when the system worked well, they found themselves being punished. Jamal, a management consultant, described being passed over for a promotion: "I brought more business to my firm than any other senior manager last year, but I left work at 5:30 PM every day. That was noticed. It's not that I wasn't working. I always put in an extra two or three hours after the kids went to bed. But I was told that my lack of presence signaled a lack of commitment to the firm."

The expectation that rising stars should always be in the office made more sense when most business was local or regional and much of it had to be done in person. But now business is global, runs 24/7, and in many cases must be conducted virtually—and yet physical absence is still stigmatized. The head of learning and development at an engineering firm told me, "We're one of those companies that has had a flexible working policy for a long time, but due to stigma we have not allowed or encouraged people to take full advantage of that, and those who do have been sidelined in their careers."

The irony is that research has shown the benefits of flexible working—for instance, improvements in efficiency and knowledge sharing. And in my interviews I've found that an organization's commitment to cultivating and valuing flexible work is a key draw for members of dual-career couples. HR teams are well aware of these advantages. That's why they put flexible policies in place.

If companies know what works in theory, why do they keep reverting to their old ways of managing and grooming talent? A big reason is inertia: It's how they've done it for a long time, and they're more likely to make incremental changes than overhauls. There's also a dues-paying element, I've learned. People at the top tend to think, "Well, if I did it, so should the next generation." It can be hard for them to identify with dual-career constraints if they came of age in a different time and never faced those constraints themselves. Because the current crop of high potentials aren't willing to sacrifice their partners' needs, a bit of a stalemate results—and mobility and flexibility challenges go largely unaddressed.

The head of learning and development at a large recruitment company put it this way: "Our Millennials are as ambitious and committed to their careers as other generations, but they also hold a place for other people in their lives....This affects how they want to work and progress. If we cannot change to cater to them, we will lose more and more talent."

That generational shift is the result of changing marriage patterns that have profound implications for organizations. Over the past three decades, *assortative mating*—the tendency of people with similar outlooks and levels of education and ambition to marry each other—has risen by almost 25%. Nowadays, when an organization hires a manager in his or her thirties, that person's partner is also likely to be an ambitious professional with a fast-paced career. Paradoxically, a trend that should expand the talent pool for companies shrinks it instead, because of their outdated ways of developing people.

A NEW TALENT STRATEGY

Designing effective leadership-development paths for members of dual-career couples requires two changes: a revised notion of what is needed to achieve growth and advancement, and a shift in the organizational culture to embrace flexibility in the talent development process.

Recognize that *what* matters more than *where*. Organizations must stop worrying so much about where aspiring leaders serve their time and instead focus on the skills and networks to be acquired. The talent management director of a global engineering firm described her company's approach like this: "We have a list of experiences that future leaders need to have, but they are location-agnostic. For example, managing a business in crisis or doing a turnaround—sometimes you don't have to move at all to get these experiences." That's a departure from the days when the company's CEOs believed that one had to work in set locations to move up. Shifting the focus from "where" to "what" opens a range of creative solutions, such as brief job swaps, short-term assignments in various organizations or units (sometimes called secondments), and commuter roles.

Take Indira, an executive at a large pharmaceuticals company who needed to build experience and knowledge of the Chinese market. To accommodate her dual-career situation, her company facilitated a six-week job swap with a peer in China, followed by a six-month strategic project for the pair to work on. "Because it was a job swap, we felt a mutual responsibility to help each other," Indira told me. "We acted as each other's coaches, extensively briefed each other before the swap, spoke almost every day during it, and worked closely together on the subsequent project." This model of having a peer-coach coupled with a burst of intensive experience acted as a "development accelerator," she said. "I absorbed so much in that process."

For instance, Indira was able to quickly build (and then maintain) a strong network in China. Her Chinese peer made great introductions, vouched for her, and asked people to "look after her" on the ground. (She did the same for him in the United States.) Acutely aware that she would be there for only six weeks, she didn't want to waste a second, so she made an enormous effort, working evenings and weekends. In that time Indira acquired important knowledge of the local market, the cultural aspects of doing business in China, and the variations in company culture between the two countries. And she gained valuable perspective, having never before worked outside the United States. As she put it, she saw that there was "more than one way to skin a cat." She said she became better at problem solving and dealing with uncertainty.

Indira's experience is common. Job swaps and shorter-term assignments facilitate rapid development of the networks, skills, and perspective required to progress—which means they can circumvent, or at least minimize, the mobility challenge.

When more time—six months to two years—is needed for development, some companies are experimenting with partially remote leadership roles to accommodate members of dual-career couples. Managers work three or four days a week at the assignment location and the remainder of the week at home. Historically, this sort of arrangement has been stigmatized, as the head of HR at a global mining company explained: "Business leaders believed it signaled a lack of commitment and that people used it to simply work less." But companies, including his own, are changing their position. "More and more people in the talent pool are asking for it, and we have the technology to make it work, so we're a lot more open—especially when it's likely that someone will return to their home location at the end of their assignment." This view is supported by a growing body of research showing that people who telecommute don't work less than their colleagues at the office. In fact, they often put in more hours and are more productive in the hours they work.

Though networks, skills, and experiences can be acquired through job swaps, short-term assignments, and remote-leadership arrangements, full-time relocation is sometimes necessary to move one's career forward. Members of dual-career couples know that, yet they often feel let down by organizations that offer what one executive described as "a wealth of resources but little real support." She explained that the resources made available to mobile talent are usually tailored to "trailing" homemakers or secondary-career partners, not to full-career partners. They typically include cultural adaptation courses, introductions to homemaker networks, and information about various social activities. When career help is offered, it is geared toward part-time secretarial or teaching posts, for example, or volunteering. Thus, even when resources are abundant, they are often not appropriate for dual-career couples.

Some companies are tackling this shortcoming by using resources such as the International Dual Career Network as two-way headhunters. The mobile employee's partner can register to receive access to workshops, placement support, and other job seekers' services. And without paying a headhunter's fee, the mobile employee's organization can fill other vacant positions with qualified people in the network, who are quite clear about their location requirements. As one IDCN member told me, "We've filled some of our key senior positions through the network. This isn't a pool of trailing spouses. We're tapping into a pool of highly skilled people, in some cases more skilled than the talent who is leading the geographic move."

Remove cultural obstacles to flexibility. Even when companies redesign their talent strategies so that their people can expand networks, skills, and experiences in new ways, those policies often get blocked culturally. That risk is particularly high when leaders from the unbounded generation subscribe to the view that the mobility and flexibility challenges of dual-career couples are, as one executive put it, "personal things that talent should work out for themselves." For HR's benefit, such leaders may pay lip service to supporting members of dual-career couples—or they may genuinely believe they're being supportive—while still, consciously or not, discouraging or punishing the use of flexible work policies.

To give their new talent strategies a fighting chance, companies need to change their culture. First, they must educate senior leaders about contemporary talent and the best ways to attract and nurture it. One organization I spoke with was using reverse mentoring—partnering a senior executive with a talented Millennial—to foster this awareness. "It's very

When more time—six months to two years—is needed for development, some companies experiment with partially remote leadership roles.

effective," the head of HR said. "Once leaders understand the challenges, they are much better at accommodating them—and of course those executives who really 'get it' are able to hoard the best talent." The strongest examples I've seen set up the reverse mentoring in a bilateral way: The senior executive mentors a Millennial on career and organizational matters, and the Millennial mentors the executive on a range of current issues—sometimes technology and social media, but more often what motivates Millennials and what their lives are like.

That this exposure changes mindsets mirrors a discovery in another area of study: the finding that men whose wives have careers are less likely to discriminate against women at work and more likely to facilitate their career development. The psychological mechanism at play here is personalization. Someone who experiences "the other's" situation firsthand is much more likely to understand it and respond in a supportive way.

When companies broaden senior leaders' minds through reverse mentoring and updates on the proven benefits of working flexibly, attitudes about flexible work quickly shift, and that's what transforms the culture. Here's how it happens: When executives see that Millennials (and others) with flexible schedules are still working hard and producing results, they revise their assumptions and begin to adjust their own ways of working. That has ripple effects. Even if the boss makes only small changes, the "signaling" impact is large—it gives others tacit permission to work more flexibly.

One HR professional in a manufacturing company pointed out, "Now we have leaders saying, 'Hey, listen, I've got to take off and run to a ball game,' or 'We're going out for dinner.' Or whatever it may be. That helps set the tone." It's especially powerful when senior men behave this way. That challenges the gender stereotype and also creates a more desirable place for members of dual-career couples to work. Joshua, a manager in the high-potential program of a global consumer goods company and part of a dual-career couple, explained: "Word gets around the HiPo group which senior managers encourage flexible working, and we compete like crazy to get assignments with them."

COMPANIES MUST EMBRACE a new model of talent management to attract and retain tomorrow's leaders. When high potentials see that it's possible to grow and advance in their organizations without sacrificing their partners' success, they'll feel safer opening up about their mobility and flexibility challenges. As a result, their organizations will be able to plan better for the future and make the right kinds of investments in the right people. Everyone will come out ahead.

HBR Reprint R1803H

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WHAT MOST PEOPLE GET WRONG ABOUT MEN AND WOMEN

RESEARCH SHOWS THE SEXES AREN'T SO DIFFERENT.

BY CATHERINE H. TINSLEY AND ROBIN J. ELY

THE CONVERSATION ABOUT the treatment of women in the workplace has reached a crescendo of late, and senior leaders—men as well as women—are increasingly vocal about a commitment to gender parity. That's all well and good, but there's an important catch. The discussions, and many of the initiatives companies have undertaken, too often reflect a faulty belief: that men and women are fundamentally *different,* by virtue of their genes or their upbringing or both. Of course, there are biological differences. But those are not the differences people are usually talking about. Instead, the rhetoric focuses on the idea that women are inherently unlike men in terms of disposition, attitudes, and behaviors. (Think headlines that tout "Why women do X at the office" or "Working women don't Y.")

ILLUSTRATION BY JEFF ROGERS


TRUE
OR
FALSE

IN BRIEF

THE BELIEF
There's a popular notion that men and women are fundamentally different in important (nonbiological) ways—and those differences are cited to explain women's lagged achievement.

THE TRUTH
According to numerous meta-analyses of published research, men and women are actually very similar with respect to key attributes such as confidence, appetite for risk, and negotiating skill.

WHY IT MATTERS
Too many managers try to "fix" women or accommodate their supposed differences—and that doesn't work. Companies must instead address the organizational conditions that lead to lower rates of retention and promotion for women.

ONE SET OF assumed differences is marshaled to explain women's failure to achieve parity with men: Women negotiate poorly, lack confidence, are too risk-averse, or don't put in the requisite hours at work because they value family more than their careers. Simultaneously, other assumed differences—that women are more caring, cooperative, or mission-driven—are used as a rationale for companies to invest in women's success. But whether framed as a barrier or a benefit, these beliefs hold women back. We will not level the playing field so long as the bedrock on which it rests is our conviction about how the sexes are different.

The reason is simple: Science, by and large, does not actually support these claims. There is wide variation among women and among men, and meta-analyses show that, on average, the sexes are far more similar in their inclinations, attitudes, and skills than popular opinion would have us believe. We do see sex differences in various settings, including the workplace—but those differences are not rooted in fixed gender traits. Rather, they stem from organizational structures, company practices, and patterns of interaction that position men and women differently, creating systematically different experiences for them. When facing dissimilar circumstances, people respond differently—not because of their sex but because of their situations.

Emphasizing sex differences runs the risk of making them seem natural and inevitable. As anecdotes that align with stereotypes are told and retold, without addressing why and when stereotypical behaviors appear, sex differences are exaggerated and take on a determinative quality. Well-meaning but largely ineffectual interventions then focus on "fixing" women or accommodating them rather than on changing the circumstances that gave rise to different behaviors in the first place.

Take, for example, the common belief that women are more committed to family than men are. Research simply does not support that notion. In a study of Harvard Business School graduates that one of us conducted, nearly everyone, regardless of gender, placed a higher value on their families than on their work (see "Rethink What You 'Know' About High-Achieving Women," HBR, December 2014). Moreover, having made career decisions to accommodate family responsibilities didn't explain the gender achievement gap. Other research, too, makes it clear that men and women do not have fundamentally different priorities.

Numerous studies show that what does differ is the treatment mothers and fathers receive when they start a family. Women (but not men) are seen as needing support, whereas men are more likely to get the message—either explicit or subtle—that they need to "man up" and not voice stress and fatigue. If men do ask, say, for a lighter travel schedule, their supervisors may cut them some slack—but often grudgingly and with the clear expectation that the reprieve is temporary. Accordingly, some men attempt an under-the-radar approach, quietly reducing hours or travel and hoping it goes unnoticed, while others simply concede, limiting the time they spend on family responsibilities and doubling down at work. Either way, they maintain a reputation that keeps them on an upward trajectory. Meanwhile, mothers are often expected, indeed encouraged, to ratchet back at work. They are rerouted into less taxing roles and given less "demanding" (read: lower-status, less career-enhancing) clients.

To sum up, men's and women's desires and challenges about work/family balance are remarkably similar. It is what they experience at work once they become parents that puts them in very different places.

Things don't have to be this way. When companies observe differences in the overall success rates of women and men, or in behaviors that are critical to effectiveness, they can actively seek to understand the organizational conditions that might be responsible, and then they can experiment with changing those conditions.

Consider the example of a savvy managing director concerned about the leaky pipeline at her professional services firm. Skeptical that women were simply "opting out" following the birth of a child, she investigated and found that one reason women were leaving the firm stemmed from the performance appraisal system: Supervisors had to adhere to a forced distribution when rating their direct reports, and women who had taken parental leave were unlikely to receive the highest rating because their performance was ranked against that of peers who had worked a full year.

Getting less than top marks not only hurt their chances of promotion but also sent a demoralizing message that being a mother was incompatible with being on a partner track. However, the fix was relatively easy: The company decided to reserve the forced distribution for employees who worked the full year, while those with long leaves could roll over their rating from the prior year. That applied to both men and women, but the policy was most heavily used by new mothers. The change gave women more incentive to return from maternity leave and helped keep them on track for advancement. Having more mothers stay on track, in turn, helped chip away at assumptions within the firm about women's work/family preferences.

As this example reveals, companies need to dive deeper into their beliefs, norms, practices, and policies to understand how they position women relative to men and how the different positions fuel inequality. Seriously investigating the context that gives rise to differential patterns in the way men and women experience the workplace—and intervening accordingly—can help companies chart a path to gender parity.

Below, we address three popular myths about how the sexes differ and explain how each manifests itself in organizational discourse about women's lagged advancement. Drawing on years of social science research, we debunk the myths and offer alternative explanations for observed sex differences—explanations that point to ways that managers can level the playing field. We then offer a four-pronged strategy for undertaking such actions.

POPULAR MYTHS

We've all heard statements in the media and in companies that women lack *the desire or ability to negotiate,* that they lack *confidence,* and that they lack *an appetite for risk*. And, the thinking goes, those shortcomings explain why women have so far failed to reach parity with men.

For decades, studies have examined sex differences on these three dimensions, enabling social scientists to conduct meta-analyses—investigations that reveal whether or not, on average across studies, sex differences hold, and if so, how large the differences are. (See the sidebar "The Power of Meta-Analysis.") Just as importantly, meta-analyses also reveal the circumstances under which differences between men and women are more or less likely to arise. The aggregated findings are clear: Context explains any sex differences that exist in the workplace.

Take negotiation. Over and over, we hear that women are poor negotiators—they "settle too easily," are "too nice," or are "too cooperative." But not so, according to research. Jens Mazei and colleagues recently analyzed more than 100 studies examining whether men and women negotiate different outcomes; they determined that gender differences were small to negligible. Men have a slight advantage in negotiations when they are advocating exclusively for themselves and when ambiguity about the stakes or opportunities is high. Larger disparities in outcomes occur when negotiators either have no prior experience or are forced to negotiate, as in a mandated training exercise. But such situations are atypical, and even when they do arise, statisticians would deem the resulting sex differences to be small. As for the notion that women are more cooperative than men, research by Daniel Balliet and colleagues refutes that.

The belief that women lack confidence is another fallacy. That assertion is commonly invoked to explain why women speak up less in meetings and do not put themselves forward for promotions unless they are 100% certain they meet all the job requirements. But research does not corroborate the idea that women are less confident than men. Analyzing more than 200 studies, Kristen Kling and colleagues concluded that the only noticeable differences occurred during adolescence; starting at age 23, differences become negligible.

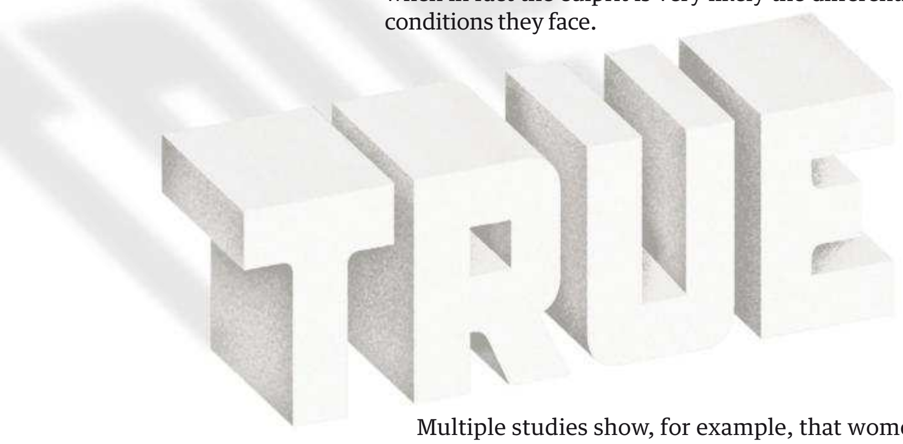
What about risk taking—are women really more conservative than men? Many people believe that's true—though they are split on whether being risk-averse is a strength or a weakness. On the positive side, the thinking goes, women are less likely to get caught up in macho displays of bluff and bravado and thus are less likely to take unnecessary risks. Consider the oft-heard sentiment following the demise of Lehman Brothers: "If Lehman Brothers had been Lehman Sisters, the financial crisis might have been averted." On the negative side, women are judged as too cautious to make high-risk, potentially high-payoff investments.

But once again, research fails to support either of these stereotypes. As with negotiation, sex differences in the propensity to take risks are small and depend on the context. In a meta-analysis performed by James Byrnes and colleagues, the largest differences arise in contexts unlikely to exist in most organizations (such as among people asked to participate in a game of pure chance). Similarly, in a study Peggy Dwyer and colleagues ran examining the largest, last, and riskiest investments made by nearly 2,000 mutual fund investors, sex differences were very small. More importantly, when investors' specific knowledge about the investments was added to the equation, the sex difference diminished to near extinction, suggesting that access to information, not propensity for risk taking, explains the small sex differences that have been documented.

In short, a wealth of evidence contradicts each of these popular myths. Yet they live on through oft-repeated narratives routinely invoked to explain women's lagged advancement.

MORE-PLAUSIBLE EXPLANATIONS

The extent to which employees are able to thrive and succeed at work depends partly on the kinds of opportunities and treatment they receive. People are more likely to behave in ways that undermine their chances for success when they are disconnected from information networks, when they are judged or penalized disproportionately harshly for mistakes or failures, and when they lack feedback. Unfortunately, women are more likely than men to encounter each of these situations. And the way they respond—whether that's by failing to drive a hard bargain, to speak up, or to take risks—gets unfairly attributed to "the way women are," when in fact the culprit is very likely the differential conditions they face.



Multiple studies show, for example, that women are less embedded in networks that offer opportunities to gather vital information and garner support. When people lack access to useful contacts and information, they face a disadvantage in negotiations. They may not know what is on the table, what is within the realm of possibility, or even that a chance to strike a deal exists. When operating under such conditions, women are more likely to conform to the gender stereotype that "women don't ask."

We saw this dynamic vividly play out when comparing the experiences of two professionals we'll call Mary and Rick. (In this example and others that follow, we have changed the names and some details to maintain confidentiality.) Mary and Rick were both midlevel advisers in the wealth management division of a financial services firm. Rick was able to bring in more assets to manage because he sat on the board of a nonprofit, giving him access to a pool of potential clients with high net worth. What Mary did not know for many years is how Rick had gained that advantage. Through casual conversations with one of the firm's senior partners, with whom he regularly played tennis, Rick had learned that discretionary funds existed to help advisers cultivate relationships with clients. So he arranged for the firm to make a donation to the nonprofit. He then began attending the nonprofit's fund-raising events and hobnobbing with key players, eventually parlaying his connections into a seat on the board. Mary, by contrast, had no informal relationships with senior partners at the firm and no knowledge of the level of resources that could have helped her land clients.

When people are less embedded, they are also less aware of opportunities for stretch assignments and promotions, and their supervisors may be in the dark about their ambitions. But when women fail to "lean in" and seek growth opportunities, it is easy to assume that they lack the confidence to do so—not that they lack pertinent information. Julie's experience is illustrative. Currently the CEO of a major investment fund, Julie had left her previous employer of 15 years after learning that a more junior male colleague had leapfrogged over her to fill an opening she didn't even know existed. When she announced that she was leaving and why, her boss was surprised. He told her that if he had realized she wanted to move up, he would have gladly helped position her for the promotion. But because she hadn't put her hat in the ring, he had assumed she lacked confidence in her ability to handle the job.

How people react to someone's mistake or failure can also affect that person's ability to thrive and succeed. Several studies have found that because women operate under a higher-resolution microscope than their male counterparts do, their mistakes and failures are scrutinized more carefully and punished more severely. People who are scrutinized more carefully will, in turn, be less likely to speak up in meetings, particularly if they feel no one has their back. However, when women fail to speak up, it is commonly assumed that they lack confidence in their ideas.

We saw a classic example of this dynamic at a biotech company in which team leaders noticed that their female colleagues, all highly qualified research scientists, participated far less in team meetings than their male counterparts did, yet later, in one-on-one conversations, often offered insightful ideas germane to the discussion. What these leaders had failed to see was that when women did speak in meetings, their ideas tended to be either ignored until a man restated them or shot down quickly if they contained even the slightest flaw. In contrast, when men's ideas were flawed, the meritorious elements were salvaged. Women therefore felt they needed to be 110% sure of their ideas before they would venture to share them. In a context in which being smart was the coin of the realm, it seemed better to remain silent than to have one's ideas repeatedly dismissed.

It stands to reason that people whose missteps are more likely to be held against them will also be less likely to take risks. That was the case at a Big Four accounting firm that asked us to investigate why so few women partners were in formal leadership roles. The reason, many believed, was that women did not want such roles because of their family responsibilities, but our survey revealed a more complex story. First, women and men were equally likely to say they would accept a leadership role if offered one, but men were nearly 50% more likely to have been offered one. Second, women were more likely than men to say that worries about jeopardizing their careers deterred them from pursuing leadership positions—they feared they would not recover from failure and thus could not afford to take the risks an effective leader would need to take. Research confirms that such concerns are valid. For example, studies by Victoria Brescoll and colleagues found that if women in male-dominated occupations make mistakes, they are accorded less status and seen as less competent than men making the same mistakes; a study by Ashleigh Rosette and Robert Livingston demonstrated that black women leaders are especially vulnerable to this bias.

Research also shows that women get less frequent and lower-quality feedback than men. When people don't receive feedback, they are less likely to know their worth in negotiations. Moreover, people who receive little feedback are ill-equipped to assess their strengths, shore up their weaknesses, and judge their prospects for success and are therefore less able to build the confidence they need to proactively seek promotions or make risky decisions.

An example of this dynamic comes from a consulting firm in which HR staff members delivered partners' annual feedback to associates. The HR folks noticed that when women were told they were "doing fine," they "freaked out," feeling damned by faint praise; when men received the same feedback, they left the meeting "feeling great." HR concluded that women lack self-confidence and are therefore more sensitive to feedback, so the team advised partners to be especially encouraging to the women associates and to soften any criticism. Many of the partners were none too pleased to have to treat a subset of their associates with kid gloves, grousing that "if women can't stand the heat, they should get out of the kitchen." What these partners failed to realize, however, is that the kitchen was a lot hotter for women in the firm than for men. Why? Because the partners felt more comfortable with the men and so were systematically giving them more informal, day-to-day feedback. When women heard in their annual review that they were doing "fine," it was often the first feedback they'd received all year; they had nothing else to go on and assumed it meant their performance was merely adequate. In contrast, when men heard they were doing "fine," it was but one piece of information amidst a steady stream. The upshot was disproportionate turnover among women associates,

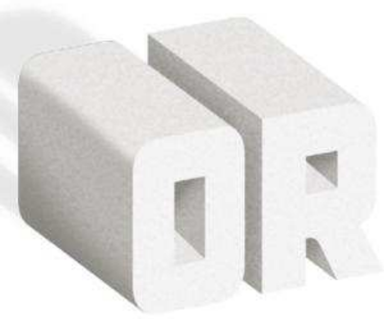
WHY THE SEX-DIFFERENCE NARRATIVE PERSISTS

Beliefs in sex differences have staying power partly because they uphold conventional gender norms, preserve the gender status quo, and require no upheaval of existing organizational practices or work arrangements. But they are also the path of least resistance for our brains. Three well-documented cognitive errors help explain the endurance of the sex-difference narrative.

First, when seeking to explain others' behavior, we gravitate to explanations based on intrinsic *personality traits*—including stereotypically "male" traits and stereotypically "female" traits"—rather than *contextual factors*. (Social psychologists call this "the fundamental attribution error.") For example, if a man speaks often and forcefully in a meeting, we are more likely to conclude that he is assertive and confident than to search for a situational explanation, such as that he's been repeatedly praised for his contributions. Likewise, if a woman is quiet in a meeting, the easier explanation is that she's meek or underconfident; it takes more cognitive energy to construct an alternative account, such as that she is used to being cut off or ignored when she speaks. In short, when we see men and women behaving in gender-stereotypical ways, we tend to make the most cognitively simple assumption—that the behavior reflects who they are rather than the situation they are in.

Second, mere exposure to a continuing refrain, such as "Women are X, and men are Y," makes people judge the statement as true. Many beliefs—that bats are blind, that fresh produce is always more nutritious than frozen, that you shouldn't wake a sleepwalker—are repeated so often that their mere familiarity makes them easier for our minds to accept as truth. (This is called the "mere exposure effect.")

Third, once people believe something is true, they tend to seek, notice, and remember evidence that confirms the position and to ignore or forget evidence that would challenge it. (Psychologists call this "confirmation bias.") If we believe that gender stereotypes are accurate, we are more likely to expect, notice, and remember times when men and women behave in gender-stereotypical ways and to overlook times when they don't.



many of whom left the firm because they believed their prospects for promotion were slim.

AN ALTERNATIVE APPROACH

The problem with the sex-difference narrative is that it leads companies to put resources into "fixing" women, which means that women miss out on what they need—and what every employee deserves: a context that enables them to reach their potential and maximizes their chances to succeed.

Managers who are advancing gender equity in their firms are taking a more inquisitive approach—rejecting old scripts, seeking an evidence-based understanding of how women experience the workplace, and then creating the conditions that increase women's prospects for success. Their approach entails four steps:

1. Question the narrative. A consulting firm we worked with had recruited significant numbers of talented women into its entry ranks—and then struggled to promote them. Their supervisors' explanations? Women are insufficiently competitive, lack "fire in the belly," or don't have the requisite confidence to excel in the job. But those narratives did not ring true to Sarah, a regional head, because a handful of women—those within her region—were performing and advancing at par. So rather than accept her colleagues' explanations, she got curious.

2. Generate a plausible alternative explanation. Sarah investigated the factors that might have helped women in her region succeed and found that they received more hands-on training and more attention from supervisors than did women in other regions. This finding suggested that the problem lay not with women's deficiencies but with their differential access to the conditions that enhance self-confidence and success.

To test that hypothesis, Sarah designed an experiment, with our help. First, we randomly split 60 supervisors into two groups of 30 for a training session on coaching junior consultants. Trainers gave both groups the same lecture on how to be a good coach. With one group, however, trainers shared research showing that differences in men's and women's self-confidence are minuscule, thus subtly giving the members of this "treatment" group reason to question gender stereotypes. The "control" group didn't get that information. Next, trainers gave all participants a series of hypotheticals in which an employee—sometimes a man and sometimes a woman—was underperforming. In both groups, participants were asked to write down the feedback they would give the underperforming employee.

Clear differences emerged between the two groups. Supervisors in the control group took different tacks with the underperforming man and woman: They were far less critical of the woman and focused largely on making her feel good, whereas they gave the man feedback that was more direct, specific, and critical, often with concrete suggestions for how he could improve. In contrast, the supervisors who had been shown research that refuted sex differences in self-confidence gave both employees the same kind of feedback; they also asked for more-granular information about the employee's performance so that they could deliver constructive comments. We were struck by how the participants who had been given a reason to question gender stereotypes focused on learning more about individuals' specific performance problems.

The experiment confirmed Sarah's sense that women's lagged advancement might be due at least partly to supervisors' assumptions about the training and development needs of their female direct reports. Moreover, her findings gave supervisors a plausible alternative explanation for women's lagged advancement—a necessary precondition for taking the next step. Although different firms find different types of evidence more or less compelling—not all require as rigorous a test as this firm did—Sarah's evidence-based approach illustrates a key part of the strategy we are advocating.

3. Change the context and assess the results. Once a plausible alternative explanation has been developed, companies can make appropriate changes and see if performance improves. Two stories help illustrate this step. Both come from a midmarket private equity firm that was trying to address a problem that had persisted for 10 years: The company's promotion and retention rates for white women and people of color were far lower than its hiring rates.

The first story involves Elaine, an Asian-American senior associate who wanted to sharpen her financing skills and asked Dave, a partner, if she could assist with that aspect of his next deal. He invited her to lunch, but when they met, he was underwhelmed. Elaine struck him as insufficiently assertive and overly cautious. He decided against putting her on his team—but then he had second thoughts. The partners had been questioning their ability to spot and develop talent, especially in the case of associates who didn't look like them. Dave thus decided to try an experiment: He invited Elaine to join the team and then made a conscious effort to treat her exactly as he would have treated someone he deemed a superstar. He introduced her to the relevant players in the industry, told the banks she would be leading the financing, and gave her lots of rope but also enough feedback and coaching so that she wouldn't hang herself. Elaine did not disappoint; indeed, her performance was stellar. While quiet in demeanor, Dave's new protégée showed an uncanny ability to read the client and come up with creative approaches to the deal's financing.

A second example involves Ned, a partner who was frustrated that Joan, a recent-MBA hire on his team, didn't assert herself on management team calls. At first Ned simply assumed that Joan lacked confidence. But then it occurred to him that he might be falling back on gender stereotypes, and he took a closer look at his own behavior. He realized that he wasn't doing anything to make participation easier for her and was actually doing things that made it harder, like taking up all the airtime on calls. So they talked about it, and Joan admitted that she was afraid of making a mistake and was hyperaware that if she spoke, she needed to say something very smart. Ned realized that he, too, was afraid she would make a mistake or wouldn't add value to the discussion, which is partly why he took over. But on reflection, he saw that it wouldn't be the end of the world if she did stumble—he did the same himself now and again. For their next few calls, they went over the agenda beforehand and worked out which parts she would take the lead on; he then gave her feedback after the call. Ned now has a junior colleague to whom he can delegate more; Joan, meanwhile, feels more confident and has learned that she can take risks and recover from mistakes.

4. Promote continual learning. Both Dave and Ned recognized that their tendency to jump to conclusions based on stereotypes was robbing them—and the firm—of vital talent. Moreover, they have seen firsthand how questioning assumptions and proactively changing conditions gives women the opportunity to develop and shine. The lessons from these small-scale experiments are ongoing: Partners at the firm now meet regularly to discuss what they're learning. They also hold one another accountable for questioning and testing gender-stereotypical assessments as they arise. As a result, old narratives about women's limitations are beginning to give way to new narratives about how the firm can better support all employees.

THE FOUR STEPS we've outlined are consistent with research suggesting that on difficult issues such as gender and race, managers respond more positively when they see themselves as part of the solution rather than simply part of the problem. The solution to women's lagged advancement is not to fix women or their managers but to fix the conditions that undermine women and reinforce gender stereotypes. Furthermore, by taking an inquisitive, evidence-based approach to understanding behavior, companies can not only address gender disparities but also cultivate a learning orientation and a culture that gives all employees the opportunity to reach their full potential.

HBR Reprint R1803J

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THE POWER OF META-ANALYSIS

A meta-analysis is a statistical technique used to combine the results of many studies, providing a more reliable basis for drawing conclusions from research. This approach has three advantages over a single study.

First, it is more *accurate*, because it is based on a very large sample—the total of the samples across all the studies—and because it contains data collected in many different contexts. Any single set of findings may reflect idiosyncrasies of the study's sample or context and thus may not yield conclusions that are truly generalizable. A meta-analysis, in essence, averages across these idiosyncrasies to give us a truer answer to the research question (in this case, "Are men and women different with regard to a particular trait or behavior?").

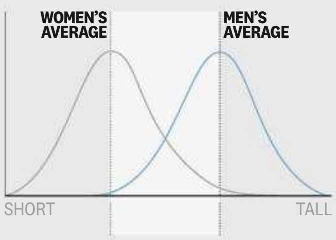
Second, a meta-analysis is more *comprehensive*. Because it contains studies conducted in many different contexts, it can tell us in which kinds of contexts we are more or less likely to see sex differences.

Third, a meta-analysis is more *precise:* It can tell us just how different men and women are. For any given trait or behavior, there is variability *among* men and *among* women; typically, those within-group differences are distributed around some "true" average for each group. Using the averages and the variability within each group, we can calculate an "effect size" that can be thought of as the impact that sex has on a particular trait. When testing for a sex difference, we are in essence asking the question "How much overlap is there between women and men, or, stated another way, how far apart are their respective averages, relative to the variability within each sex?"

Take the graph on the left below, which shows the distribution of men's and women's heights in the UK. We can see from the curves that men, on average, are quite a bit taller than women. In fact, men average five feet, nine inches, and women five feet, three inches—a six-inch difference. We can also see that a number of women are taller than the average man, just as a number of men are shorter than the average woman. The size of the sex effect on height is 1.72, which is considered "large."

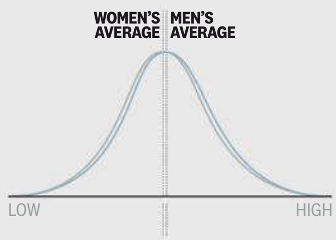
Using that sex difference as a reference point, we can see from the graph on the right that the difference between men and women in self-esteem, or confidence, is much smaller, with an effect size of 0.10. Although the difference in each graph is statistically significant, the difference in confidence is considered, from a statistical point of view, "trivial"—and from a managerial point of view, essentially meaningless. This same analysis for men's and women's negotiation outcomes and for their propensity to take risks yielded effect sizes of 0.20 ("small") and 0.13 ("trivial"), respectively. In short, contrary to popular belief, all three sex differences we consider in this article are, for all intents and purposes, meaningless.

HEIGHT



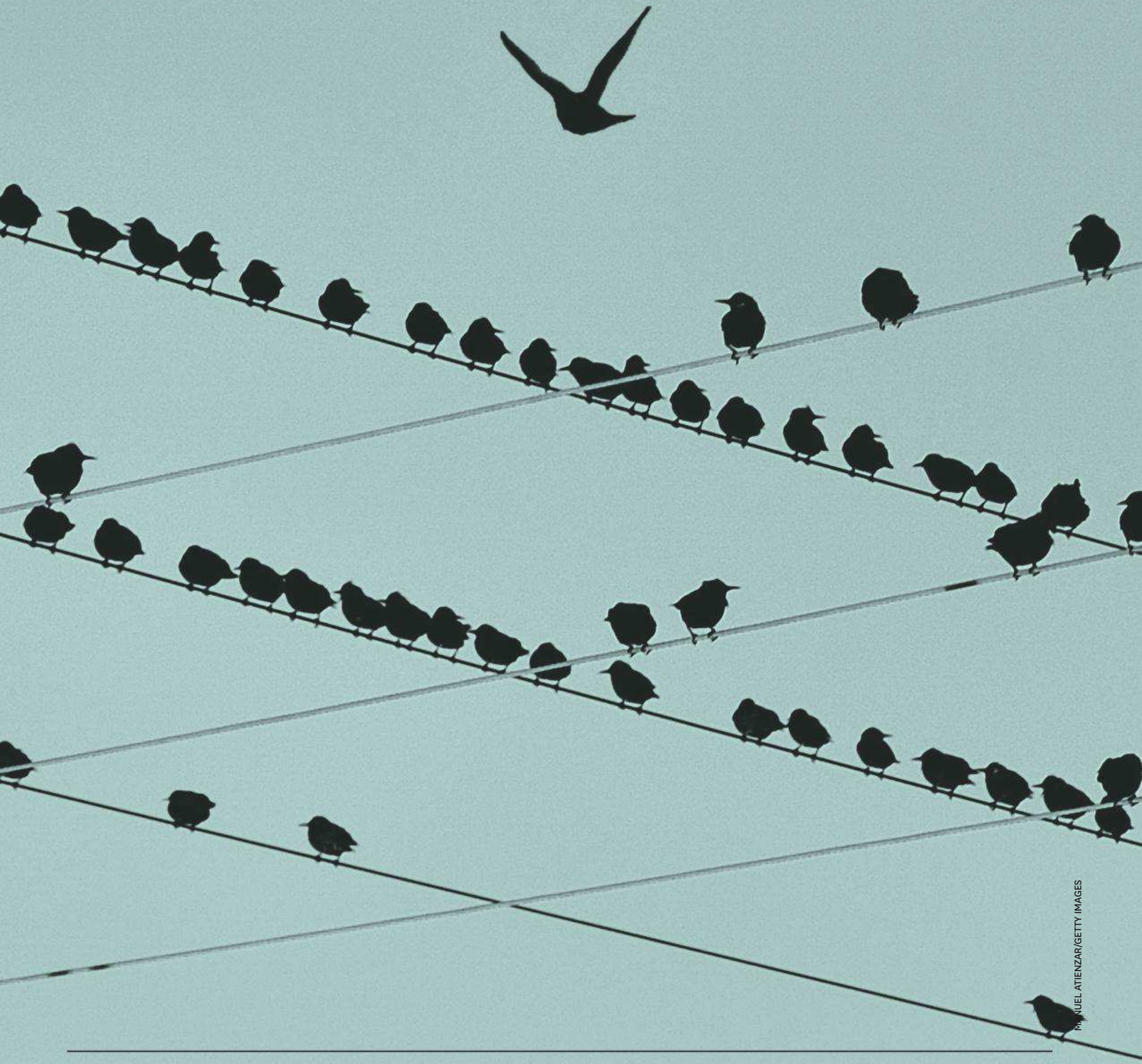
EFFECT SIZE: 1.72

SELF-ESTEEM/CONFIDENCE



EFFECT SIZE: 0.10

NOTE STATISTICIANS CONSIDER AN EFFECT SIZE OF LESS THAN 0.20 TO BE "TRIVIAL," 0.20–0.49 TO BE "SMALL," 0.50–0.79 TO BE "MEDIUM," AND 0.80 OR MORE TO BE "LARGE."



MANUEL ATIENZAR/GETTY IMAGES

LAYOFFS THAT DON'T BREAK YOUR COMPANY

BETTER APPROACHES TO WORKFORCE TRANSITIONS

BY SANDRA J. SUCHER AND SHALENE GUPTA

Two great forces are transforming the very nature of work: automation and ever fiercer global competition. To keep up, many organizations have had to rethink their workforce strategies, often making changes that are disruptive and painful. Typically, they turn to episodic restructuring and routine layoffs, but in the long term both damage employee engagement and company profitability. Some companies, however, have realized that they need a new approach.

IN BRIEF

THE SITUATION
Automation and fierce competition are forcing many companies to resort to frequent rounds of layoffs.

THE PROBLEM
All too often, layoffs done for short-term gain damage employee engagement and actually reduce profitability.

THE BETTER WAY
Some companies have developed workforce change strategies that make sparing use of staff reductions and ensure that when they do happen, the process feels fair and the company and the affected parties are set up for success.

Consider the case of Nokia. At the beginning of 2008 senior managers at the Finnish telecom firm were celebrating a one-year 67% increase in profits. Yet competition from low-cost Asian competitors had driven Nokia's prices down by 35% over just a few years. Meanwhile, labor costs in Nokia's Bochum plant in Germany had risen by 20%. For management, the choice was clear: Bochum had to go. Juha Äkräs, Nokia's senior vice president of human resources at the time, flew in to talk about the layoff with the plant's 2,300 employees. As he addressed them, the crowd grew more and more agitated. "It was a totally hostile situation," he recalls.

The anger spread. A week later 15,000 people protested at Bochum. German government officials launched an investigation and demanded that Nokia pay back subsidies it had received for the plant. Unions called for a boycott of Nokia products. The news was filled with pictures of crying employees and protesters crushing Nokia phones. Ultimately, the shutdown cost Nokia €200 million—more than €80,000 per laid-off employee—not including the ripple effects of the boycott and bad press. The firm's market share in Germany plunged; company managers estimate that from 2008 to 2010 Nokia lost €700 million in sales and €100 million in profits there.

In 2011, when Nokia's mobile phone business tanked, its senior leaders decided they needed to restructure again. That would involve laying off 18,000 employees across 13 countries over the next two years. Chastened by their experience in Germany, Nokia's executives were determined to find a better solution. This time, Nokia implemented a program that sought to ensure that employees felt the process was equitable and those who were laid off had a soft landing.

One of us, Sandra, has spent eight years researching best practices for workforce change in global multinational companies. She has seen that all too frequently companies do bad layoffs, do layoffs for the wrong reason, or worse, do both. By "bad," we mean layoffs that aren't fair or perceived as fair by employees and that have lasting negative knock-on effects. The job cuts in Bochum ignited outrage because Nokia had generated so much profit the year before. Consequently, they were seen as unjust and took a steep toll on Nokia's reputation and sales. And when we say "wrong reasons," we mean done to achieve short-term cost cuts instead of long-term strategic change. In 2008, Nokia did have the right reasons, but it still suffered because of its process.

Some governments, recognizing the massive damage layoffs create, have written laws protecting employees against them. For example, a number of European countries require companies to provide a social or economic justification before they can conduct layoffs. France, however, recently eliminated the requirement to provide an economic justification, and in the United States companies can conduct layoffs at will. Regardless of how easy it might be to cut personnel, executives should remember that doing so will have consequences.

The research clearly shows that bad layoffs and layoffs for the wrong reasons rarely help senior leaders accomplish their goals. In this article, we'll present a better approach to workforce transitions—one that makes sparing use of staff reductions and ensures that when they do happen, the process feels fair and the company and the affected parties are set up for success.

WHY LAYOFFS ARE INEFFECTIVE

If Nokia's story sounds familiar, albeit a little more colorful than usual, that's because it is. In the United States alone, the Bureau of Labor Statistics reports, 880,000 to 1.5 million people were laid off annually from 2000 to 2008 and from 2010 to 2013 (the last year data was compiled). This happened even when the economy was expanding. During 2009, the height of the Great Recession, 2.1 million Americans were laid off. Globally, unemployment rose by 34 million from 2007 to 2010, data from the International Labour Organization shows.

Layoffs have been increasing steadily since the 1970s. In 1979 fewer than 5% of *Fortune* 100 companies announced layoffs, according to McMaster University sociology professor Art Budros, but in 1994 almost 45% did. A McKinsey survey of 2,000 U.S. companies found that from 2008 to 2011 (during the recession and its aftermath), 65% resorted to layoffs. Today layoffs have become a default response to an uncertain future marked by rapid advances in technology, tumultuous markets, and intense competition.

Yet other data on layoffs should give companies pause. In a 2012 review of 20 studies of companies that had gone through layoffs, Deepak Datta at the

University of Texas at Arlington found that layoffs had a neutral to negative effect on stock prices in the days following their announcement. Datta also discovered that after layoffs a majority of companies suffered declines in profitability, and a related study showed that the drop in profits persisted for three years. And a team of researchers from Auburn University, Baylor University, and the University of Tennessee found that companies that have layoffs are twice as likely to file for bankruptcy as companies that don't have them.

All too frequently, senior managers dismiss such findings. Some argue that since companies do layoffs because they're already in bad shape, it's no surprise that their financial performance may not improve. Layoffs are so embedded in business as a short-term solution for lowering costs that managers ignore the fact that they create more problems than they solve.

AFTER A LAYOFF, SURVIVORS EXPERIENCED A 41% DECLINE IN JOB SATISFACTION, A 36% DECLINE IN ORGANIZATIONAL COMMITMENT, AND A 20% DECLINE IN JOB PERFORMANCE.

Companies that shed workers lose the time invested in training them as well as their networks of relationships and knowledge about how to get work done. Even more significant are the blighting effects on survivors. Charlie Trevor of University of Wisconsin–Madison and Anthony Nyberg of University of South Carolina found that downsizing a workforce by 1% leads to a 31% increase in voluntary turnover the next year. Meanwhile, low morale weakens engagement. Layoffs can cause employees to feel they've lost control: The fate of their peers sends a message that hard work and good performance do not guarantee their jobs. A 2002 study by Magnus Sverke and Johnny Hellgren of Stockholm University and Katharina Näswall of University of Canterbury found that after a layoff, survivors experienced a 41% decline in job satisfaction, a 36% decline in organizational commitment, and a 20% decline in job performance.

While short-term productivity may rise because fewer workers have to cover the same amount of work, that increase comes with costs—and not only to the workers. Quality and safety suffer, according to research by Michael Quinlan at the University of New South Wales, who also found higher rates of employee burnout and turnover. Meanwhile, innovation declines. For instance, a study of one *Fortune* 500 tech firm done by Teresa Amabile at Harvard Business School discovered that after the firm cut its staff by 15%, the number of new inventions it produced fell 24%. In addition, layoffs can rupture ties between salespeople and customers. Researchers Paul Williams, M. Sajid Khan, and Earl Naumann have found that customers are more likely to defect after a company conducts layoffs. Then there's the effect on a company's reputation: E. Geoffrey Love and Matthew S. Kraatz of University of Illinois at Urbana–Champaign found that companies that did layoffs saw a decline in their ranking on *Fortune*'s list of most admired companies.

Employees who are downsized pay a price beyond the immediate loss of their jobs. Wayne Cascio, a professor at the University of Colorado, points to the Labor Department's survey of workers who were laid off during 1997 and 1998, an economic upswing. Most were worse off a year later: Only 41% had found work at equal or higher pay, 26% had found jobs at lower pay, and another 21% were still unemployed or had left the workforce entirely. The effects follow people throughout their lives. A 2009 Columbia University study that looked at employees who had been laid off during the 1982 recession showed that 20 years later they were still earning 20% less than peers who had kept their jobs. The aftershocks aren't limited just to earnings: According to a study by Kate Strully, an assistant professor at SUNY, laid-off employees have an 83% higher chance of developing a new health condition in the year after their termination and are six times more likely to commit a violent act.

THE SEARCH FOR ALTERNATIVES

A few companies have been experimenting with better ways to handle their changing workforce needs. Take AT&T. In 2013 the company's leaders concluded that 100,000 of its 240,000 employees were working in jobs that would no longer be relevant in a decade. Instead of letting these employees go and hiring new talent, AT&T decided to retrain all 100,000 workers by 2020. That way, the company wouldn't lose the knowledge the employees had developed and wouldn't undermine the trust in senior management that was necessary to engagement, innovation, and performance. So far, the results seem very positive. In a 2016 HBR article, AT&T's chief strategy officer, John Donovan (now CEO of AT&T Communications), noted that 18 months after the program's inception, the company had decreased its product development cycle time by 40% and accelerated its time to revenue by 32%. Since 2013, its revenue has increased by 27%, and in 2017 AT&T even made *Fortune*'s 100 Best Companies to Work For list for the first time.

In her work, Sandra has studied seven companies that, like AT&T, have successfully pursued alternatives to traditional layoffs. An analysis of their experiences reveals that an effective workforce change strategy has three main components: a philosophy, a method, and options for a variety of economic conditions.

A philosophy. A workforce change philosophy serves as a compass for senior leaders. It builds on a company's values and spells out the commitments and priorities the company will abide by as it implements change. A philosophy helps leaders answer the following questions:

- What value do we believe employees contribute to our business and its success?
- What expectations do we have for employees' engagement, loyalty, flexibility, and ability to adapt and grow?
- What do we owe employees as a fair exchange for what they have given us?
- How can employees help us develop and implement workforce change?

The philosophy of the French tire maker Michelin, for example, includes hiring people for their potential rather than for the job. In its labor relations policy, the company describes its commitment to employees' long-term growth. Each employee is assigned a career manager who oversees his or her development and helps make sure it aligns with Michelin's needs.

The company also has a defined approach to workforce change and restructuring. Michelin's labor relations policy described it like this in 2013:

Restructures are inevitable in certain circumstances in order to maintain the company's global competitiveness. These restructures must, as far as possible, take place at times when the company's health allows mobilization of adequate resources to attenuate the social consequences. Whenever possible, staff at the entities concerned and their representatives are invited to work together to seek and suggest solutions for restoring competitiveness and reducing overcapacity, which may open up an alternative to closing an activity or site. When restructuring is unavoidable, it must be announced as soon as possible and carried out according to the procedures negotiated with the staff representatives. The ensuing changes on a personal level must be supported for as long as is necessary to ensure that the reclassified employees find a satisfactory solution in terms of standard of living, stability, family life and self-esteem.

When Nokia was contemplating that massive workforce reduction in 2011, its senior leaders articulated a philosophy with four core values:

1. *We will accept our responsibility as the driver of the local economies and aim for the highest of aspirations in supporting our previous and current employees.*
2. *We will take an activist role and lead the program with our brand, expertise, and resources in the key areas that matter most.*
3. *We will involve all of the relevant parties in the program design and operations.*
4. *We will communicate openly towards all stakeholders, including employees, unions, government, and local stakeholders, even when we do not know the full answers.*

As Nokia's philosophy highlights, workforce change can affect many people beyond employees. A company must communicate its intent directly without leaving any of them in the dark or piecing together scraps of information to figure out what the future holds.

A WORKFORCE CHANGE STRATEGY SHOULD ANTICIPATE THREE DIFFERENT SCENARIOS: A HEALTHY PRESENT, SHORT-TERM ECONOMIC VOLATILITY, AND AN UNCERTAIN FUTURE.

A method. Having a clear methodology will allow companies to explore alternatives to layoffs, and if they cannot be avoided, minimize the harm they cause. To establish one, firms need to address three questions:

- How will we plan for workforce change on an ongoing basis?
- Who will be accountable for managing and supervising it?
- What metrics should we use to determine whether our actions are effective?

In 2013, Michelin's CEO, Jean-Dominique Senard, asked the members of his team to turn the insights they'd gathered from the previous decade's restructuring efforts into a formal process for workforce change. As a result, Michelin integrated three planning processes—product planning, territory planning, and restructuring planning—into one. The product-planning groups project their anticipated production for the next five years, and then the territories identify which regions will have too much or too little production capacity and what technologies each factory will need. The restructuring plans come out of the dialogue between the product and territory heads. For example, in October 2013, Michelin determined that it would have overcapacity for truck tire production in its Budapest factory and decided to close it in mid-2015. By making that call early, Michelin's team had time to carefully plan objectives for the shutdown and create a way to reduce the impact on the affected employees (something we'll discuss more later).

Michelin has set up an accountability structure that clearly delineates who is responsible for what. The company's executive committee, led by the CEO, oversees workforce change globally. Because more than 50% of Michelin's factories and most of its workforce reductions are in Europe, a European restructuring committee supports the executive committee. It identifies factories that should be closed or downsized and directly oversees all European restructurings. Finally, Michelin establishes a committee for each factory that will be affected, consisting of regional and country executives who are responsible for implementing the restructuring plan. Two senior executives at headquarters—a director of restructuring and a director of product planning—coordinate the entire process.

Like any other good strategy, an effective workforce change strategy includes goals against which success can be measured. An example of these comes from Honeywell. In the 2001 recession, right before Dave Cote became its CEO, the company laid off 25,000 employees, or nearly 20% of its staff. Sales fell by 11% from 2000 to 2002. When the recession hit in 2008, and it looked as if more workforce changes might be required, Cote set two goals: to improve on Honeywell's poor performance during the 2001 recession, and to be in a stronger position than its competitors when the recovery came.

To measure the first goal, Cote decided to compare the company's sales, net income, and free cash flow figures for the two recessions. As it turns out, the firm was able to improve substantially on all three measures. In 2009 Honeywell's sales were 39% higher than its 2002 sales, its free cash flow was 94% higher, and its net income was more than six times higher. To monitor progress on the second goal, performance against competitors, financial data providers developed two measures: the percent change in operating income from the 2007–2008 peak to 2011, and total stock returns in 2012. At +1.8%, Honeywell had the highest postrecession increase in operating margins (versus -4.5% to +1% among its peers). And at 75.28, Honeywell also had the highest three-year total stock return in 2012, 50% better than its closest competitor's return and four times better than the lowest-performing competitor's.

Options for a variety of economic conditions. A workforce change strategy should anticipate three different scenarios: a healthy present, short-term economic volatility, and an uncertain future.

A healthy present. In the immediate term, senior leaders should practice disciplined hiring and use stringent performance metrics to build a strong organization that can weather change. A lean approach to staffing will help companies avoid yo-yoing between overexuberant hiring during growth and damaging staff reductions when demand falls.

Before Cote began his turnaround in 2002, Honeywell had a policy of hiring freely during good times and then cutting jobs in downturns. The drastic head count reduction of 2001 was too much for Cote, who responded by introducing hiring controls. Senior leaders had to justify how staff additions would help new-product or market development, and if they couldn't, had to trim costs elsewhere to fund the hires.

Too often managers use layoffs as an excuse to avoid difficult discussions about performance. Many companies practice "rank and yank" layoffs to thin out weaker employees, often on an annual basis, but it's more productive to use meaningful performance reviews and employee development plans to cultivate a base of high performers. Lincoln Electric, an arc-welding products and consumables manufacturer headquartered in Cleveland, Ohio, has had a no-layoff policy in its U.S. operations since 1958. Part of the reason it maintains that policy is that it has a reputation for high-quality and efficient staff, thanks to very strict performance standards and a rigorous evaluation process. Employees are assessed twice a year in five areas. Performance is competitive within departments, and performance ratings are tied to a merit-based compensation system. Employees who fall in the bottom 10% receive an improvement plan and, if they remain there consistently, are eventually let go.

Short-term volatility. Experienced managers develop a range of ways to reduce costs without resorting to destructive layoffs. Three approaches implemented by Honeywell, Lincoln Electric, and Recruit Holdings, a Japanese human resources and advertising media conglomerate, demonstrate how much room there is for creative management during downturns.

During the Great Recession, Cote used furloughs instead of layoffs at Honeywell. Having weathered three recessions when he was at GE, he had developed a sense for when a business cycle might run its course. Two years before any sign that the economy was in trouble, he began to pull back on hiring. Once the recession hit, Honeywell furloughed employees for one to five weeks, providing unpaid or partially compensated leaves, depending on local labor regulations. According to an article by Tom Starner in *Human Resource Executive,* the company's finance department estimated that furloughs saved Honeywell the equivalent of 20,000 jobs.

In a 2013 article he wrote for HBR, Cote explained, "I've never heard a management team talk about how the choices they make during a downturn will affect performance during a recovery....I kept reiterating that point: There will be a recovery, and we need to be prepared for it." Furloughs allowed Honeywell to retain the talent it needed when demand resurged and helped it stay profitable throughout the recession and achieve strong growth during the five years after the recovery.

In 2000, Recruit Holdings developed an innovative system, Career View, through which it hires employees

TOO OFTEN MANAGERS USE LAYOFFS AS AN EXCUSE TO AVOID DIFFICULT DISCUSSIONS. MANY COMPANIES PRACTICE "RANK AND YANK" LAYOFFS TO THIN OUT WEAKER EMPLOYEES, BUT IT'S MORE PRODUCTIVE TO USE MEANINGFUL PERFORMANCE REVIEWS AND EMPLOYEE DEVELOPMENT PLANS TO CULTIVATE A BASE OF HIGH PERFORMERS.

with nontraditional backgrounds as three-year contractors. The system helps Recruit achieve two goals: expand its reach outside Japan's major cities and increase workforce flexibility—a real feat given that Japanese companies traditionally don't do layoffs. The program targets rural employees who lack the education and experience to land a job at a major Japanese corporation, hiring them as sales associates for regional offices near their hometowns. Six months after joining Recruit, these contractors meet with career counselors to discuss their goals. They also receive detailed performance reviews that lay out the skills they're developing, the skills they need to get their next job—generally at another company—and what they can do to bridge the gap between the two. Approximately 90% of Career View employees are able to get another job at the end of their three-year stints, and Recruit is able to expand its regional presence and adjust its sales staffing up or down according to the economic cycle.

Lincoln can avoid layoffs because it requires employees to accept flexible assignments. Employees are expected to work extra hours when demand ramps up, and they understand that they'll work shorter hours when it ramps down. In addition, they can be reassigned to any other job, including one with a lower salary, for the duration of a downturn. When orders fell during the Great Recession, for instance, Lincoln moved some factory workers into sales. Those employees developed a deeper understanding of Lincoln, and customers benefited because the factory workers had a thorough knowledge of the firm's products. In addition, during economic lulls, Lincoln's leaders automatically shift their priorities to initiatives they aren't able to fully attend to when business is booming, such as developing quality improvements, scrap-reduction programs, research and development projects, and maintenance tasks—all enabled by the availability of skilled employees who have more time to help out when demand falls.

An uncertain future. Market shifts, new technologies, and new competition can require companies to do major restructuring. Before considering a layoff, they should see if they can take a cue from AT&T's transformation.

Michelin, for one, has embraced transformations as part of its workforce strategy. When Bertrand Ballarin joined the company, in 2003, one of his first jobs was to manage a factory in Bourges, France, that was going to be shut down. He gathered its managers and union reps, explained the situation, and gave them a year to come up with a plan to save the plant. After analyzing how other Michelin plants were producing airplane tires, one of three product lines handled in the factory, the team concluded that the Bourges facility had a better, more consistent industrial process for making them than the other plants did. The team successfully argued that Bourges should specialize in airplane tires and get a new research center to aid product development.

In 2013, Michelin began applying the lessons from Bourges to a factory in Roanne, France, that was at risk of being shut down. From October 2014 to March 2015, more than 70 individuals, including leaders from headquarters, union representatives, plant managers, and employees, met to develop a transformation strategy for Roanne. Rather than closing the facility and laying off its employees, Michelin agreed to put €80 million into creating a new line of premium tires there; the head count would fall from 850 to 720 employees through natural attrition. Instead of the traditional four teams working Monday to midday Saturday, the plant would reorganize into five teams that kept operations running seven days a week around the clock, and all employees would work six additional days a year. These changes allowed the plant to flex production up or down by 12% according to market conditions. In addition, Michelin dedicated €2 million to programs for improving the quality of management and work-life balance—issues that had emerged during the transformation strategy planning—for the plants' employees.

However, there are times when a transformation isn't possible or the transformation itself results in layoffs. In these cases, companies have to ensure that employees are treated fairly. This isn't just about being a good Samaritan. Datta found that companies tended to get better financial results after a layoff when employees thought it was handled equitably and done for strategic reasons rather than cost cutting.

Let's look again at what happened at Nokia in 2011, when its senior leaders realized the company needed another restructuring. Then-chairman Jorma Ollila was determined to avoid another Bochum. To help the company do so, a small team of senior leaders developed Nokia's Bridge program, which aimed to see that as many employees as possible had a new opportunity lined up the day their current job ended. Nokia opened Bridge centers in the 13 countries where the layoffs would take place. The program outlined five paths employees could choose from:

1. **Find another job at Nokia.** In order to avoid favoritism, selection committees were formed to determine which employees to retain, instead of having local managers choose.
2. **Find another job outside Nokia.** The centers offered outplacement services, including career coaching, résumé workshops, career fairs, and networking events.
3. **Start a new business.** Individual employees or teams could present business proposals to win grants of up to €25,000. Employees were given two months to develop their plans, as well as support such as coaching and mentoring, networking introductions, and training. Nokia took no stake in any of the funded businesses.
4. **Learn something new.** Nokia offered training grants for business-management and trade-school courses in many areas, including restaurant management, cosmetology, construction, and firefighting.
5. **Build a new path.** The company offered financial support to employees who had personal goals they wanted to accomplish, such as volunteering.

Nokia spent €50 million on Bridge, or about €2,800 per employee. That accounted for just 4% of the €1.35 billion it spent on restructuring from 2011 to 2013. As a result of the program, 60% of the 18,000 affected workers knew their next step the day their jobs ended. Overall, 85% of the Finnish Bridge participants said they were satisfied with the program, while 67% of global employees said they were. Furthermore, the layoff candidates and the remaining employees maintained or improved quality levels throughout the restructuring. Employees at the sites that were targeted for downsizing achieved €3.4 billion in new-product revenues, one-third of new-product sales—the same proportion they had brought in before. Employee engagement scores in all areas of the company held steady throughout the restructuring. And, unlike the situation in Bochum, there were no labor actions of any kind in the 13 countries where the layoffs happened. By all accounts Nokia had indeed found a better approach to workforce change.

In 2017, three years after selling its devices and services business to Microsoft, Nokia used an enhanced version of the Bridge program to handle its latest restructuring. Microsoft Finland has rolled out a similar program. And Finland's government has even taken cues from Bridge and incorporated ideas from it into legislation outlining what companies that conduct layoffs are required to provide for affected employees.

ONE OF THE biggest questions organizations face as they grapple with a constantly shifting economic landscape is whether their current workforce can help them make the transitions necessary to their success. While companies tend to prioritize short-term financial results over the long-term well-being of their employees, employees are the lifeblood that enables a company to keep delivering the products and services that ultimately generate shareholder benefits. Michelin's and Nokia's experiences show that employees can and should be trusted to perform well, even when they know they might lose their jobs. For all companies, planning thoughtful workforce change instead of automatically resorting to layoffs is a better way to address the vicissitudes of technological transformation and intensifying competition.

HBR Reprint R1803K

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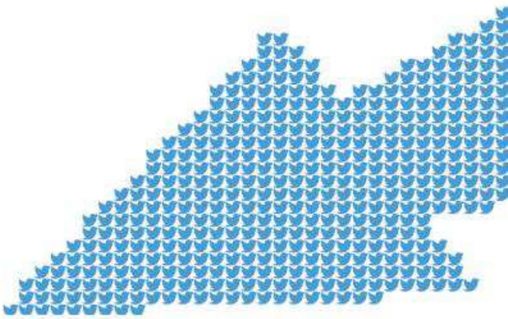
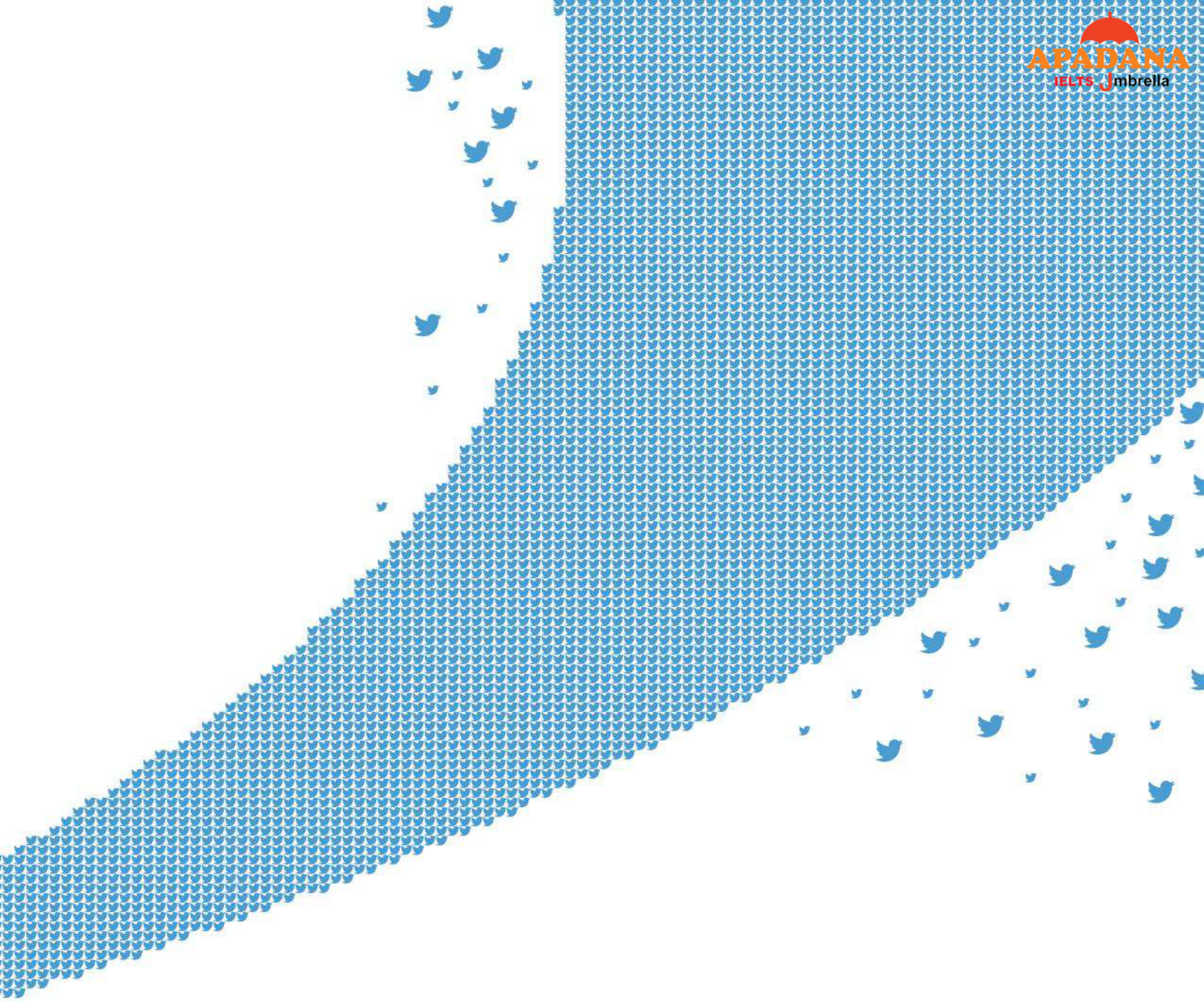
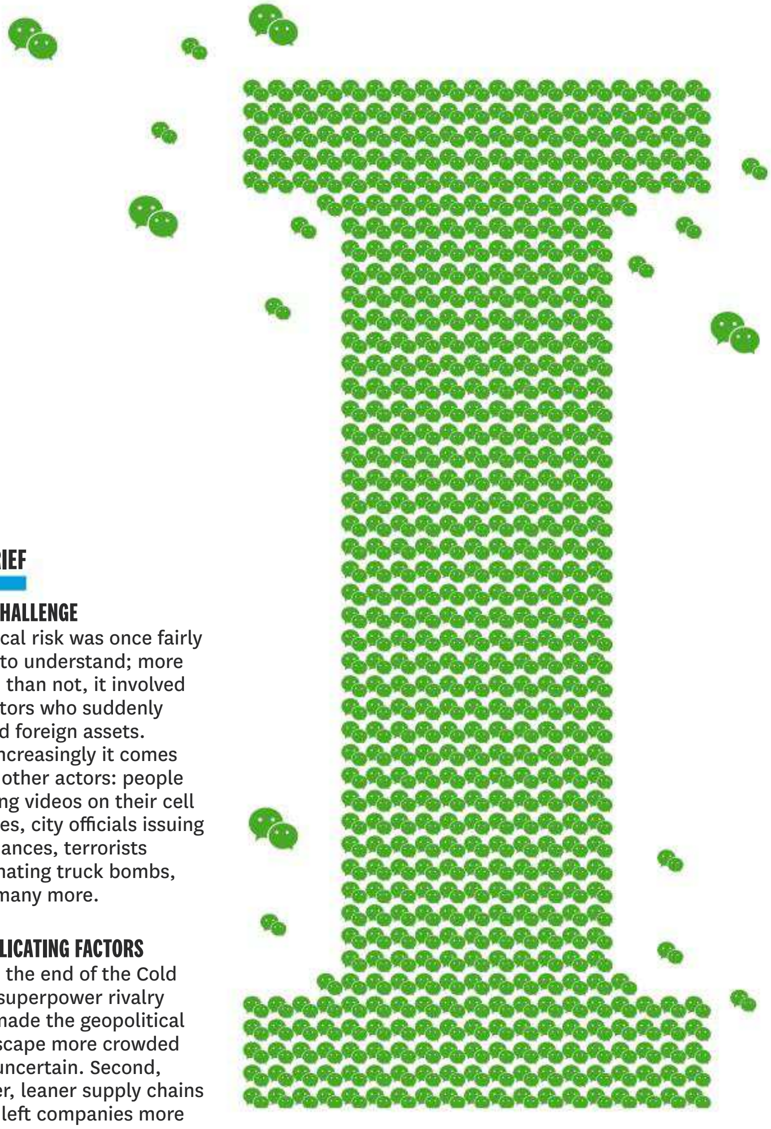


MANAGING 21ST-CENTURY POLITICAL RISK

TODAY'S THREATS ARE MORE COMPLICATED, BUT THE REMEDIES DON'T HAVE TO BE.

BY CONDOLEEZZA RICE AND AMY ZEGART





In 2010, Gabriela Cowperthwaite read a news article that changed her life. It described how an orca whale had killed a trainer during a show at SeaWorld in Orlando. Cowperthwaite, a Los Angeles filmmaker who liked taking her twins to see orcas at the San Diego SeaWorld, spent the next two years making an investigative documentary, *Blackfish,* which depicted how the theme parks' treatment of orcas harmed both the animals and their human trainers. The film cost just $76,000 to produce. Yet it quickly went viral, capturing the attention of celebrities and animal rights groups. Public pressure on SeaWorld mounted. Corporations cut sponsorship ties, regulators opened investigations into the parks' safety practices, and lawmakers proposed a ban on breeding orcas in captivity. Eighteen months after the release of *Blackfish,* SeaWorld's stock price had plunged 60%, and CEO Jim Atchison announced that he was resigning. By 2018, SeaWorld's stock still had not recovered—all because one woman had read a story about orcas and made a low-budget film.

Until recently, political risk was relatively easy to understand. More often than not, it involved dictators who suddenly seized foreign assets for their own domestic agendas, like Venezuela's Hugo Chávez. Today expropriating leaders are far less common than they used to be. And although national governments are still the main arbiters of the business environment, a great deal of the political risk within and across countries now comes from other players: individuals wielding cell phones, local officials issuing city ordinances, terrorists detonating truck bombs, UN officials administering sanctions, and many more. Events in far-flung places affect businesses around the world at dizzying speed. Anti-Chinese protests in Vietnam create clothing stock-outs in America. Civil war in Syria fuels a refugee crisis and terrorist attacks in Europe, leaving the tourism industry shaken. A North Korean dictator launches a cyberattack on a Hollywood movie studio. We live in a new world of political risk.

For companies, 21st-century political risk is essentially the probability that a political action will significantly affect their business—whether positively or negatively. This definition is more radical than it sounds. We chose the phrase "political action," not "government action," to highlight the growing role of risk generators outside the usual places like capitals, army barracks, and party headquarters. These days, political activities that affect business are happening almost everywhere—inside homes, on the streets, and in the cloud; in chat rooms, dorm rooms, and boardrooms; in neighborhood bars and summit sidebars. Companies that want a competitive edge need to manage the potential impact of this widening array of global political actors.

Considered in isolation, many 21st-century political risks seem like low-probability events. If you're American, the chance that you'll be killed by a foreign-born terrorist is about one in 45,000—far more remote than your odds of dying from a heat wave or by choking on food. Unlike *Blackfish,* most social-activism documentaries don't become viral sensations. Cumulative risk is a different matter, however, and is easy to underestimate. While the probability that a single political risk will affect a company's business in a particular city tomorrow may be low, the probability that over time *some* political risk somewhere in the world will significantly affect its business is surprisingly high. Add up a string of rare events, and you'll find that the overall incidence is not so rare after all.

The good news is that while political risk has grown complex,

IN BRIEF

THE CHALLENGE

Political risk was once fairly easy to understand; more often than not, it involved dictators who suddenly seized foreign assets. But increasingly it comes from other actors: people making videos on their cell phones, city officials issuing ordinances, terrorists detonating truck bombs, and many more.

COMPLICATING FACTORS

First, the end of the Cold War superpower rivalry has made the geopolitical landscape more crowded and uncertain. Second, longer, leaner supply chains have left companies more vulnerable to disruptions in faraway places. Finally, new technologies mean that social activism isn't just for social activists anymore. Bystanders can post videos that go viral and cause significant political damage to companies.

THE SOLUTION

Organizations that excel at risk management have four core competencies: understanding, analyzing, mitigating, and responding to political risks. A series of questions can help executives identify gaps in each area and increase their ability to get ahead of and minimize risk.

effectively managing it remains fairly straightforward. Organizations can get ahead by getting the basics right. Building on existing best practices and drawing on our own leadership experiences and research, we have identified four core competencies of organizations that excel at risk management—and a series of questions that can help executives identify gaps in their organizations' ability to operate in an era of increasing global insecurity.

THE NEW FORCES BEHIND POLITICAL RISK

Three megatrends are transforming the landscape for political risk: dramatic changes in politics since the end of the Cold War, supply chain innovations, and the tech revolution.

Politics. Companies today operate in the most complicated international political environment in modern history. During the Cold War, superpower rivalry between the United States and the Soviet Union set relatively clear dividing lines between adversaries and allies. Trade politics and security politics were sharply delineated, too. The world was largely split between Western capitalist markets and the command economies of the Soviet bloc. Arms control treaties involved the Soviets, but global trade negotiations did not. Today's landscape is much more crowded and uncertain—filled with rising states, declining states, failed states, rogue states, and nonstate actors like terrorist groups and cybercriminals. And security isn't just about security anymore; international economic issues are often tightly connected to security policy and politics.

When Condi was secretary of state, she watched in dismay as Dubai Ports World, an award-winning port management company owned by the government of the United Arab Emirates, was forced to transfer its ownership of U.S.-based shipping terminal operations to an American entity following a public backlash. Although the UAE was a staunch U.S. ally and a thorough U.S. government review had found no security concerns with the deal, Americans heard the words "Arabs" and "ports," and in the aftermath of 9/11, that was enough to make Dubai Ports World's operations in the U.S. untenable—even in one of the staunchest pro-market economies in the world.

Supply chains. The growing efficiency of supply chains is unlocking enormous value for companies. Even very small businesses can now take advantage of lower offshore wages, low shipping costs, and better inventory management. But there is a dark side to the supply chain revolution: Longer, leaner global supply chains leave companies more vulnerable to disruptions in faraway places.

As companies extend their overseas supplier relationships in search of improved margins, customization, and speed, the chances rise that a political action will disrupt the distribution of goods and services to

TEN TYPES OF POLITICAL RISK

In the table below, we summarize the major types of political risk that companies face in the 21st century. Our definition of political risk goes beyond the probability that an action by government officials could affect a company in significant ways; to us it includes the impact of political actions by a wide range of people and organizations. We've chosen to exclude climate change and purely economic risks, however. Climate change is a major global challenge, but we view it as more of a risk multiplier than a separate risk category. It can trigger political actions, from social activism and new regulations to civil wars and interstate conflicts—all risks that our list covers. And we left out economic risks because most businesses already consider them routinely, examining indicators such as inflation, labor markets, growth rates, and per capita income across markets.

Geopolitics	Interstate wars, great power shifts, multilateral economic sanctions, and interventions
Internal conflict	Social unrest, ethnic violence, migration, nationalism, separatism, federalism, civil wars, coups, and revolutions
Laws, regulations, policies	Changes in foreign ownership rules, taxation, environmental regulations, and national laws
Breaches of contract	Government reneging on contracts, including expropriations and politically motivated credit defaults
Corruption	Discriminatory taxation and systemic bribery
Extraterritorial reach	Unilateral sanctions and criminal investigations and prosecutions
Natural resource manipulation	Politically motivated changes to the supplies of energy and rare earth minerals
Social activism	Events or opinions that go viral, facilitating collective action
Terrorism	Politically motivated threats or violence against persons and property
Cyberthreats	Theft or destruction of intellectual property; espionage; extortion; and massive disruption of companies, industries, governments, and societies

GUIDING QUESTIONS FOR MANAGING POLITICAL RISK

Effective risk management requires four core competencies: understanding risks, analyzing risks, mitigating risks, and responding to crises. In each competency, three questions will help identify gaps and areas for improvement.

Understand	Analyze	Mitigate	Respond
What is my organization's political risk appetite?	How can we get good information about the political risks we face?	How can we reduce exposure to the political risks we have identified?	Are we capitalizing on near misses?
Is there a shared understanding of our risk appetite?	How can we ensure rigorous analysis?	Do we have a good system and team in place for timely warning and action?	Are we reacting effectively to crises?
How can we reduce blind spots?	How can we integrate political risk analysis into business decisions?	How can we limit the damage when something bad happens?	Are we developing mechanisms for continuous learning?

their customers. When China moved an offshore oil rig into Vietnam's exclusive economic zone in 2014, anti-Chinese protests erupted in Vietnam. Suppliers of Li & Fung, one of the world's largest wholesale providers of clothing and toys, were forced to close their Vietnamese factories for a week, slowing delivery of goods to the United States. What had begun as a conflict over disputed territorial waters in Southeast Asia quickly emptied store shelves in U.S. cities.

Technology. Social media, cell phones, and the internet are also transforming the 21st-century political environment. Forty-eight percent of the world is online. By 2020 more people in the world are expected to have mobile phones than to have running water or electricity. Technology is dramatically lowering the cost of collective action, making it easier for like-minded people to find one another and join a common cause, even across vast distances. What's more, social activism is not just for social activists anymore. In a hyperconnected world, bystanders can post cell phone videos that go viral. On April 9, 2017, after United Airlines oversold a flight to Louisville, Kentucky, the airline decided to remove four passengers. One of them, David Dao, refused to deplane. Passengers video-recorded Dao as he was violently dragged from his seat and posted the footage on Twitter and Facebook. Two days later, United's stock had lost $255 million in shareholder value, and analysts began worrying about the ramifications for the airline in the Chinese market, where commenters on social media shared the view that Dao was discriminated against because he was Asian.

THE POLITICAL RISK FRAMEWORK

How can companies best manage political risk in this environment? Some hire consultants to provide analysis and advice when they need it. Others rely largely on in-house units. Many employ a hybrid approach. While no one model fits all, we have developed a framework that is broad enough for most companies to apply but suggests specific actions. The framework focuses on four competencies: understanding risks, analyzing risks, mitigating risks that cannot be eliminated, and putting in place a response capability that enables effective crisis management and continuous learning.

At each step in the framework, there are three guiding questions that everyone in any organization can ask to address the most important issues.

Step 1: Understand

What is my organization's political risk appetite?

Companies, like individuals, approach risk differently. Factors that influence their appetite for it include the time horizon of major investments, the availability of alternative investments, the ease of exiting investments, and visibility to consumers. Companies in extractive industries like oil and gas, for example, undertake long-term investments in distant countries, many of which are governed by autocratic regimes and are prone to social unrest. In addition, these firms' key assets cannot be moved easily. For all those reasons, oil and gas companies must be willing to tolerate substantial political uncertainty. In contrast, consumer-facing industries, such as hotel chains and theme parks, are particularly susceptible to reputational damage and typically have a lower risk appetite as a result.

Is there a shared understanding of our risk appetite?

The best companies ensure that political risk is a concern for everyone, from the boardroom to the sales floor. Of course, not everyone in an organization will have a similar take on it: The way lawyers and accountants approach risk differs from the way marketers and product developers do, and those differences need to be sorted through and resolved. At Disney the shared understanding is that "nothing hurts the mouse." Disney essentially sets the political risk appetite close to zero.

In 2006 the Lego Group created a strategic risk management capability, which helped align views on risk across the company. The effort was led by Hans Læssøe, an engineer and a 25-year company veteran who called himself Lego's "professional paranoid." He set up systematic processes for training all new managers about risk; engaging every important business leader, including the board members, in setting the risk appetite; identifying risks; and integrating risk assessment and mitigation into business planning. Læssøe's team even developed a "net earnings at risk" metric that management and the board used to estimate the company's risk exposure annually.

How can we reduce blind spots?

Reducing blind spots requires imagination. As one major investor told us, "The biggest mistake is believing the future will look like the present. It almost never does." His firm trains all its associates to ask a simple question, over and over: What if we are wrong? Scenario planning, war-gaming exercises, and other methods can also help firms identify hidden risks. While the tools vary, the goal is the same: fostering creative thinking and guarding against groupthink.

Step 2: Analyze

How can we get good information about the political risks we face?

It may sound obvious, but you have to look for good information to find it. Companies sometimes neglect to do this. When General Electric's legendary CEO Jack Welch tried to acquire Honeywell International, in 2001, the merger sailed through the U.S. Justice Department review, and Welch assumed that EU approval would soon follow. It didn't. European regulators didn't have the same philosophy about antitrust issues that their American counterparts did; the Europeans focused on the potential impact on competitors, not on consumers. And although European regulators had never rejected a major American merger before, they had come close, nearly scuttling the merger of Boeing and McDonnell Douglas just four years earlier. But Welch and Honeywell's CEO, Michael Bonsignore, were so eager to close the deal that they reportedly never consulted their European antitrust attorneys in Brussels. When it became clear the merger was dead, Welch declared, "You are never too old to get surprised."

How can we ensure rigorous analysis?

Richard Feynman, one of the world's great physicists, once said that analysis is how we try not to fool ourselves. Nobody can predict the future, but good risk analysis challenges assumptions and mental models about how it might unfold so that organizations are better prepared.

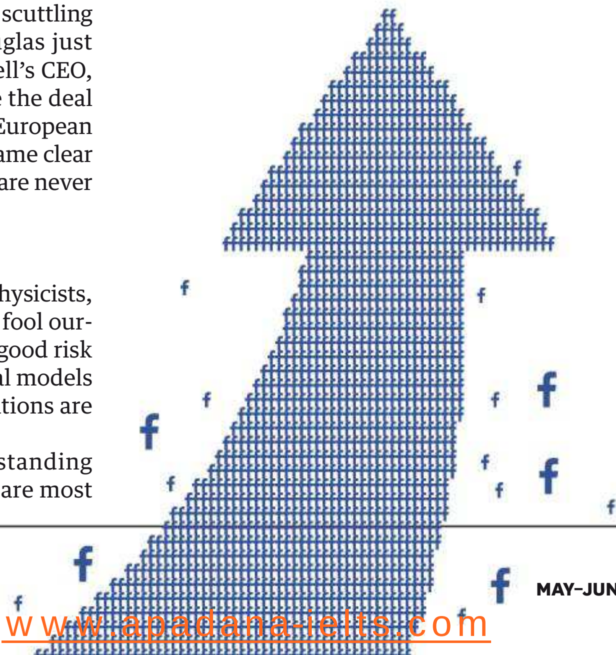
One useful way to begin is by understanding which assets are most valuable and which are most vulnerable. The more those lists converge, the higher a company's political risk. The backlash against SeaWorld was particularly damaging because trained orcas were so important to the company's brand.

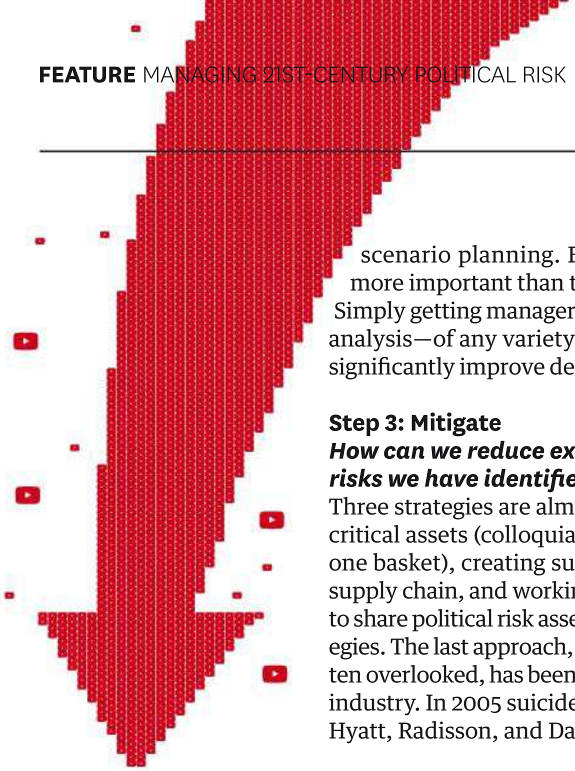
Precisely quantifying vulnerability is impossible. But that doesn't mean managers can't reduce uncertainty. Various tools—from red teams (which assume opposing roles or points of view) to Monte Carlo computer simulations (which project the range and likelihood of outcomes)—can help. The goal is to develop ways of understanding key drivers and possibilities so that surprises aren't so surprising.

FedEx is a model of effective risk management. As the company once said, "[We] may not be able to foresee what will cause the next European truck drivers' strike, but [we] know that ground delays will happen at some point, and when it happens, the backup plans are ready to go." Marriott International has a five-tier color-coded security alert system for all its hotels and continuously assesses whether to move each hotel up or down. The Marriott risk team doesn't know exactly when or where terrorists may strike next. Its system is designed to increase preparedness and safety—by notifying hotel managers about changing conditions that might pose a threat, designating specific tasks for every threat level, and auditing compliance to ensure that everyone knows what to do.

How can we integrate political risk analysis into business decisions?

In 2016 a global survey by McKinsey found that only a quarter of executives integrate risk analysis into a formal process. The most popular method for addressing geostrategic risk is to simply do ad hoc analyses as events arise. Lego has a better approach, called "boat spotting"—keeping an eye out for potential risks and opportunities so that you don't "miss the boat." The company has used many risk assessment tools, including analyses of Google Trends search data and





scenario planning. But it also understands that more important than the approach is the intention: Simply getting managers to use rigorous political risk analysis—of any variety—to defend investments can significantly improve decision making.

Step 3: Mitigate

How can we reduce exposure to the political risks we have identified?

Three strategies are almost always useful: dispersing critical assets (colloquially, don't put all your eggs in one basket), creating surge capacity and slack in the supply chain, and working with others in the industry to share political risk assessments and mitigation strategies. The last approach, which is perhaps the most often overlooked, has been undertaken in the hospitality industry. In 2005 suicide bombers simultaneously hit Hyatt, Radisson, and Days Inn properties in Amman, Jordan. In the aftermath of the bombings, Marriott's vice president for global safety and security, Alan Orlob, formed a hotel security working group with competitors to share information and best practices—receiving sponsorship from the State Department's Overseas Security Advisory Council.

NOT ENOUGH ORGANIZATIONS TRY TO LEARN FROM NEAR MISSES.

Do we have a good system and team in place for timely warning and action?

Companies that manage political risk well do not sit back waiting for government advisories or quarterly industry reports. To develop better situational awareness, they set up effective warning systems that constantly scan a wide range of sources for information. They also establish protocols so that responses to specific conditions are triggered automatically. These protocols make clear what steps should be taken and by whom. The idea is to reduce decision making on the fly.

Companies on the front lines of managing global political risk often create in-house threat-assessment units staffed with former intelligence and law enforcement professionals who track political developments in real time. Royal Caribbean International's team is led by a 25-year veteran of the FBI. Orlob worked in the U.S. Army Special Forces for 24 years. Chevron's eight-person team of global risk experts has a combined 92 years of experience in government security services. These and other best-practice firms know that dedicating a team to spotting risks and developing a warning system can make all the difference.

How can we limit the damage when something bad happens?

Managers can take steps to minimize potential damage long before a crisis unfolds. Relationships with external stakeholders are critical during a crisis, for instance—but building them takes time. Former secretary of state George Shultz often likens good diplomacy to gardening—you have to cultivate relationships with counterparts before you ask them to do something hard on your behalf. The same is true in business.

Step 4: Respond

Are we capitalizing on near misses?

All organizations want to learn from failures. Not enough try to learn from events that could have ended poorly but didn't because luck saved the day. Leaders must recognize and correct for the human tendency to ascribe close calls to a system's resiliency when it's just as likely the near miss occurred because of a system's vulnerability. The *Challenger* shuttle tragedy is a classic example: Dangerous erosion of special "O-ring" seals had occurred in shuttle flights before the disaster, but the seals had never completely failed, which led NASA managers to mistakenly believe that failure was not likely.

Are we reacting effectively to crises?

Good crisis management can be distilled into five steps: assess the situation, activate a response team, lead with values, tell your story (and be honest!), and do not fan the flames. Crises often involve multiple audiences—consumers, investors, journalists, activists, elected officials, federal regulators, and law enforcement officials, to name a few. Each audience can affect the others, generating new risks and making the situation worse. Managing the dynamics among the interested parties is essential.

Soon after Condi began serving as President George W. Bush's national security adviser, a Chinese fighter jet collided with an American surveillance plane in international airspace. The Chinese pilot was killed, and the U.S. plane had to make an emergency landing in China. Its crew members were detained while the two governments negotiated the terms of their release. For President Bush, the goals were clear: The crew had to be released; America would not apologize for legally conducting surveillance in international airspace; and the relationship with China needed to be maintained. Neither country wanted to escalate the situation, but the negotiations

FIVE GLOBAL SHOCKS THAT RATTLED BUSINESS

Periodically we see major events affect virtually everyone in the global economy. Often these "exogenous shocks" cannot be anticipated. But an organization that has built up its expertise in political risk management can still blunt their impact. Five such shocks have affected the political world—and by extension the business world—since the end of the Cold War.

The most significant was the terrorist attacks of September 11, 2001, which revealed that the United States faced threats from weak and ungoverned areas of the world, not just powerful countries. Ever since the Treaty of Westphalia in 1648 marked the beginning of the modern state system, great powers had been most focused on the dangers posed by other great powers. Not anymore.

The 2008 global financial crisis caused a second shock, leading to greater government intervention in the form of austerity measures and new regulations. It also heightened people's awareness of how the global economy was affecting their personal well-being—and helped give rise to populist backlashes. When you lose your house because of the global financial system, international economics becomes personal.

Third, the Arab Spring and the subsequent unrest across the Middle East increased pressure on both governments and businesses in the region and cast doubt on whether the current state system would endure there. Artificially set at the end of the Ottoman Empire by the French, the British, and the Italians, the national borders of Saudi Arabia, Yemen, Turkey, Iraq, Syria, and the Gulf States cut across regional concentrations of Shia, Sunni, and Kurds. The Syrian civil war has added complexity, displacing nearly 6 million people and putting an immediate strain on neighboring countries where they've sought shelter. The impact of this refugee crisis on Europe may be long-lasting and fuel a strong sense that the EU no longer protects its borders and citizens from the dangers of the Middle East.

The fourth shock we call "great powers behaving badly." The governments of both China and Russia have become increasingly assertive, reigniting long-running territorial conflicts—over the Ukraine in Russia's case and the East and South China seas in China's.

Finally, nativism, populism, protectionism, and isolationism are making a comeback. Globalization lifted millions of people out of poverty and grew the wealth of millions more. Still, it created losers—people who lacked the skills to compete in the modern economy and those for whom a call center in India, servicing American customers, became a symbol of a threat to them, not an opportunity for a worker in New Delhi. The Brexit vote in 2016 and the election of Donald Trump in the United States—the first time that the country elevated someone with absolutely no government experience to the presidency—stemmed in part from these reactions to globalization. It is telling that in the U.S. election, not one of the candidates—Donald Trump or Bernie Sanders or even the former secretary of state Hillary Clinton—defended free trade.

These five major shocks are straining the international order, affecting power dynamics across countries and the politics within them—with reverberating effects across markets.

were complicated by multiple audiences. The U.S. government could not just say, "China, you listen only to this part. Congress, you listen only to that part." Condi was on the crisis team that met twice a day to carefully manage the response. That effort included crafting a strategy for communications that would show that the governments were working on the problem but wouldn't increase tensions with each new statement. In the end the crew was released, and the Chinese received a letter from the U.S. ambassador to China, Joseph Prueher, expressing regret for the pilot's death without apologizing for the incident.

Are we developing mechanisms for continuous learning?

The best crisis response systems institute feedback loops for learning before disaster strikes, to lower the odds that a crisis will occur and improve the response when one does. Few companies get this right. Indeed, it may surprise you that the best continuous learning organizations that we know of are top-notch football teams. In football errors are everywhere, and success and failure are obvious. Elite coaches study wins as well as losses, analyzing each and every play. They review game tapes, make midgame adjustments, and reshuffle lineups for better matches.

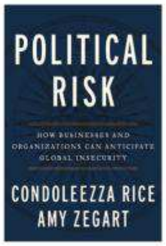
Jim Harbaugh—who coached Stanford's team and the San Francisco 49ers and is now at the University of Michigan—has a track record of turning losing teams into winning ones in just a few seasons. He likes to say, "You are getting better, or you are getting worse. You never stay the same." In the corporate world, mechanisms for continuous learning must involve both the head and the heart: assessments of what to keep doing, what to stop doing, and what to start doing, and an inspirational approach to motivate everyone to join the journey.

RISK MANAGEMENT IN ACTION: ROYAL CARIBBEAN'S HAITIAN CRISIS

Best-practice companies can attest to the value of understanding potential political risks and getting out ahead of them. Royal Caribbean is a good case in point.

On January 12, 2010, a 7.0-magnitude earthquake struck Haiti, killing an estimated 200,000 people. Three days later a Royal Caribbean cruise ship named *Independence of the Seas* landed in the Haitian port of Labadee, sending 3,000 passengers to swim and bask on a private beach just 85 miles from the hard-hit capital of Port-au-Prince. Public reaction was blistering. The *New York Post*'s headline screamed "Ship of Ghouls," and the paper noted that passengers were jet-skiing and sipping rum while Haitians were living nearby in makeshift tents amid squalid conditions.

Royal Caribbean faced a political crisis just as dramatic as the backlash against SeaWorld after the release of *Blackfish*. But for the cruise line, the tide soon



This article is adapted from *Political Risk: How Businesses and Organizations Can Anticipate Global Insecurity* (Twelve, 2018).

turned. Within days prominent news organizations ran stories highlighting how Royal Caribbean was in fact docking at the request of the Haitian government and providing desperately needed economic aid. Shortly thereafter, a survey of 4,700 people conducted by the website Cruise Critic found that two-thirds agreed with the company's decision to proceed with scheduled cruises to Labadee.

Royal Caribbean's success in handling the situation went far beyond its well-crafted talking points and midcrisis public relations effort—although those surely helped. The company had begun taking political risk management seriously years before the earthquake. And because it had developed strong competencies for handling man-made political risks in Haiti, it was well positioned to deal with a natural disaster there, too.

The cruise line had begun doing business in Haiti in the 1980s, when the country was wracked by political violence, instability, corruption, and poverty. The first step was finding a location in Labadee that—because of its inaccessibility by road—could provide a secluded and gated haven. Next, Royal Caribbean built ties with residents in the area by, for instance, creating a place for local merchants to sell their goods to disembarked passengers, which generated employment for local villagers. The cruise line also paid per-guest taxes to the government and worked to develop relationships at the national and international levels with Haitian officials, NGOs, think tanks, and UN organizations.

As a result, when the 2010 earthquake struck, the company had a deep reservoir of local understanding, trust, and relationships to draw upon. Its executives consulted with government officials and got their buy-in about continuing previously planned stops at Labadee. The cruise line agreed to contribute $1 million in aid, brought disaster relief supplies in on its ships, donated all Haitian shore-excursion proceeds to earthquake relief, and announced partnerships with high-profile charities to provide additional assistance. When Royal Caribbean was attacked in the press, independent advocates and experts, including NGOs and academics, came to its defense. The Haitian special envoy to the UN offered a quote for a company press release in support of continued dockings on the island.

Just as Royal Caribbean did not suddenly begin managing political risk when the earthquake hit, it did not stop once the immediate press furor died down. Six months after the earthquake, the company announced it was building a new school in Haiti, establishing a strategic partnership with three other companies to provide construction materials for housing and critical infrastructure, and launching a "voluntourism" excursion option for passengers to engage in community service onshore.

The cruise line still faces political risk in Haiti: In 2016 it had to temporarily turn away its ships when the country's presidential election was postponed and antitourism unrest grew. But thanks to effective risk management, Haiti has proved a valuable destination for the cruise line for more than 30 years.

Without good practices in place, Royal Caribbean's reputational crisis could have taken a very different turn. The company understood the political risks it faced in Haiti early on, analyzed them, and instituted a number of mitigation efforts before its first ship ever docked on the country's shores. Finally, Royal Caribbean's response plan was well executed, with clear leadership from the top. Adam Goldstein, the president and chief operating officer of the cruise line, put a human face on the crisis, using his personal blog to post frequent updates about everything from how the company made its decisions to daily meeting notes, responses to media reports, and photos of relief supplies. Company spokespeople stayed on message, expressing their empathy and their commitment to contributing to Haiti's recovery. In the aftermath of the earthquake, all the hard work Royal Caribbean had put into political risk management paid off.

WHEN WE STARTED teaching a political risk course several years ago at Stanford, some future trends seemed clear. But in the intervening years, we have both been surprised by political events. We might have predicted that a revanchist Russia would challenge the territorial status quo in Eastern Europe but not that it would annex Crimea. We expected the European Union to face stresses, but we did not expect Brexit. Who would have thought that Donald Trump would be elected president of the United States? Or that in the Philippines, a strongman like Rodrigo Duterte would come to power, turning his country away from the West and toward China?

No one can foresee precisely how history will unfold. But managing political risk doesn't need to be pure guesswork. You do not have to know exactly where the risk will come from to be prepared for it. Just as world-class athletes use training and conditioning to increase their strength, executives, we hope, can use our framework to build up their political-risk-management muscles.

In the end the most effective organizations have three big things in common: They take political risk seriously, they approach it systematically and with humility, and they lead from the top.

HBR Reprint R1803L

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Harvard Business Review | THE BIG IDEA

BY ANDY BOCHMAN

THE END OF CYBERSECURITY

It's time to give up on the old model of cybersecurity. It's just hygiene—necessary and useful, but not nearly enough. The new model of digital security calls for a complete reassessment of network risks and an active defense. The only truly effective solution may be to unplug mission-critical functions from the internet and reintroduce human control.

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Vivek Murthy

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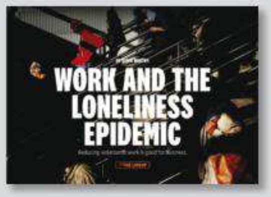

WE'RE ALWAYS connected, yet loneliness at work is epidemic. It's literally killing us.

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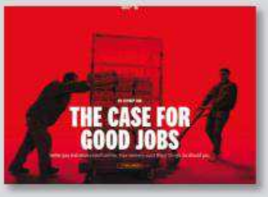

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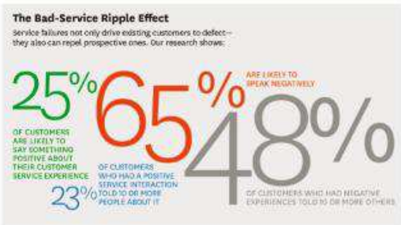
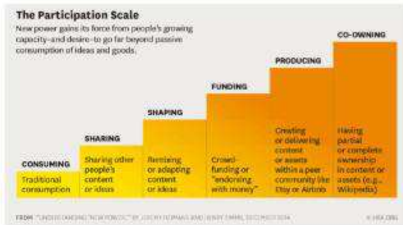
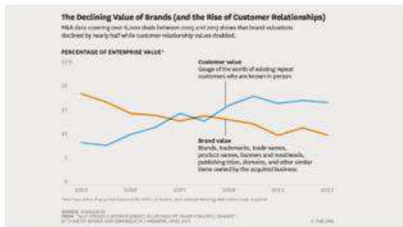
A:







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People are willing to come to your aid—if you ask in the right way
page 142

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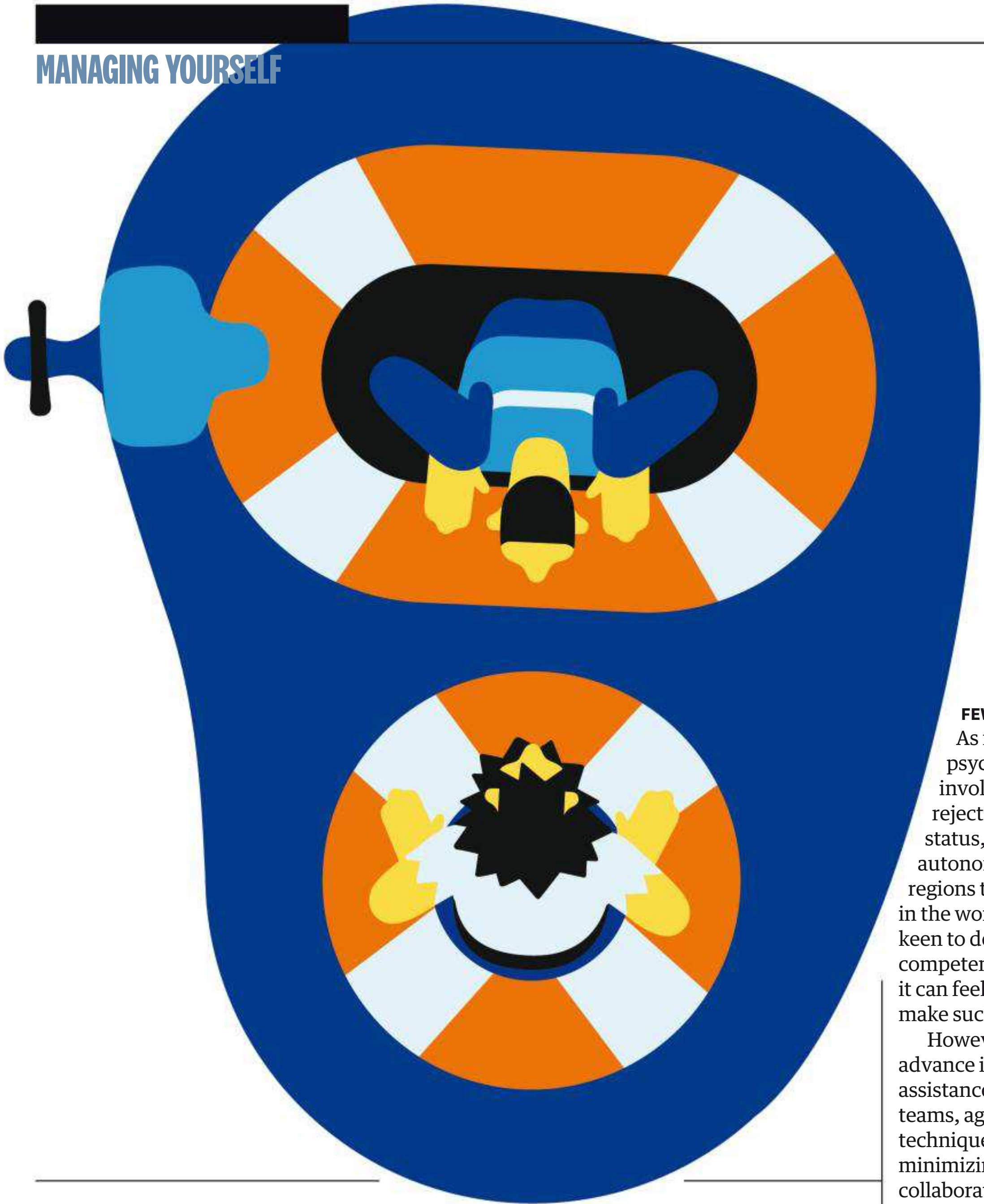


PEOPLE ARE SURPRISINGLY WILLING TO GIVE SUPPORT—IF YOU ASK FOR IT IN THE RIGHT WAY.

BY HEIDI GRANT

HOW TO GET THE HELP YOU NEED

FEW OF US enjoy asking for help. As research in neuroscience and psychology shows, the social threats involved—the uncertainty, risk of rejection, potential for diminished status, and inherent relinquishing of autonomy—activate the same brain regions that physical pain does. And in the workplace, where we're typically keen to demonstrate as much expertise, competence, and confidence as possible, it can feel particularly uncomfortable to make such requests.

However, it's virtually impossible to advance in modern organizations without assistance from others. Cross-functional teams, agile project management techniques, matrixed or hierarchy-minimizing structures, and increasingly collaborative office cultures require you to constantly push for the cooperation and support of your managers, peers, and employees. Your performance, development, and career progression depend more than ever on your seeking out the advice, referrals, and resources you need. In fact, estimates suggest that as much as 75% to 90% of the help coworkers give one another is in response to direct appeals.

So how can you effectively ask for help? How can you impose upon people without making them feel imposed upon?

The first step is getting over your reluctance to ask for assistance. Next, you need to understand that some common and perhaps intuitive ways of asking for help are ultimately unproductive, because they make people less likely to want to give it. Finally, you must learn the subtle cues that motivate people to support you and how to deliver them in the right way.

COSTS AND BENEFITS

Perhaps the easiest way to overcome the pain of asking for help is to realize that most people are surprisingly willing to lend a hand. When Vanessa Bohns, a professor at Cornell University and a leading researcher in this area, recently reviewed a group of experiments that she and her coauthors had done, she found that compliance—the rate at which people provided assistance to strangers who asked for it—was an average of 48% higher than the help seekers had expected. Clearly, people are much more likely to be helpful than we think they are. Studies also suggest that we underestimate how much effort those who do agree to help will put in.

That's in part because saying no or helping only halfheartedly carries a psychological cost that we tend to discount. But it's also because most helpers know—even if only subconsciously—that giving freely and effectively of themselves has emotional benefits. A Swiss study published in 2017 found that people who simply pledge to spend even a small amount of money on someone else feel happier than those who plan to indulge only themselves.

The key to a successful request for help is to shift the focus to these benefits. You want people to feel that they would be helping because they want to, not because they must, and that they're in control of the decision. That means avoiding any language suggesting that you or someone else is instructing them to help, that they should help, or that they have no choice but to do so. This includes prefaces such as "May I ask you a favor?," which make people feel trapped, and profuse apologies such as "I feel terrible asking you for this," which make the experience seem less positive. Emphasizing reciprocity—"I'll help you if you help me"—can also backfire, because people don't like to be

YOU WANT PEOPLE TO FEEL THAT THEY WOULD BE HELPING BECAUSE THEY WANT TO, NOT BECAUSE THEY MUST, AND THAT THEY'RE IN CONTROL OF THE DECISION.

indebted to anyone or to engage in a purely transactional exchange. And minimizing your need—"I don't normally ask for help" or "It's just a tiny thing"—is equally unproductive, because it suggests the assistance is trivial or even unnecessary.

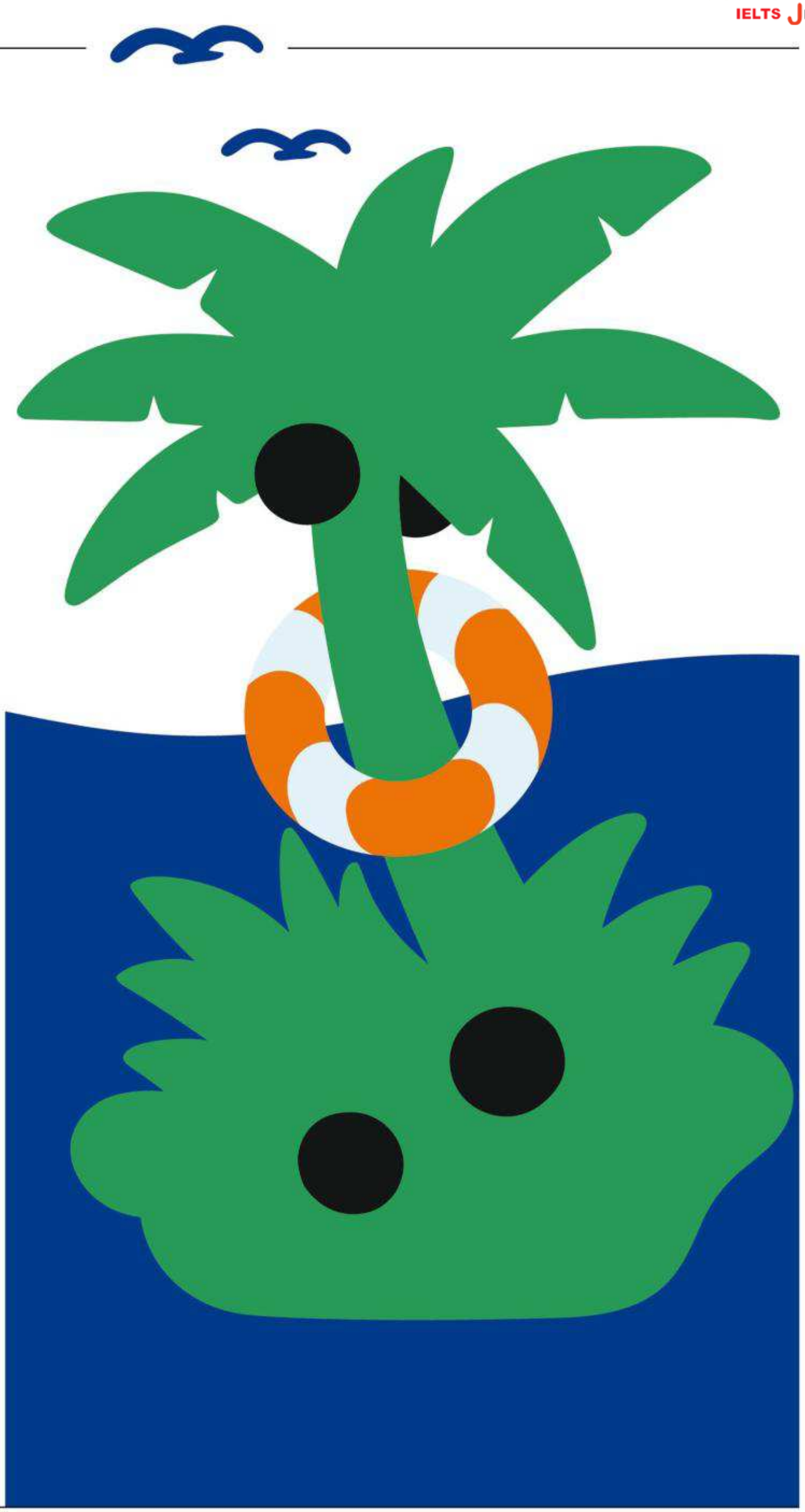
But you can ask for help in a way that avoids these pitfalls and instead gives people agency over their responses, allowing them to experience the natural highs associated with helping. That's by using what I call reinforcements, or cues, which you can incorporate in specific requests. Perhaps more important, you can also use them in day-to-day interactions to prime the people around you for greater helpfulness.

THREE REINFORCEMENTS

In-group. One reinforcement you'll want to give a potential helper is assurance that you're on his or her team and that the team is important. This taps into the innate human need to belong to—and ensure the well-being of—supportive social circles. There are several ways to do this. For example, research by Priyanka Carr and Greg Walton (a graduate student at the time), of Stanford University, shows that simply saying the word "together" can have an effect. When participants working on puzzles alone were told that they were doing so in tandem with people performing similar tasks in other rooms and could later exchange tips, they worked 48% longer, solved more problems correctly, and said they were less depleted by the task than those allowed to believe they were working fully independently.

You might also cite a common goal, enemy, or trait, such as the desire to exceed your team's sales targets, rivalry with a competitor in your industry, or a love of superhero movies. But the best way to create a strong sense of in-group is to highlight shared experiences, perceptions, thoughts, and feelings. For example, if a senior management team includes only two women, don't just say, "We're the only two women on the team" (emphasizing the trait). Say, "Have you noticed that we get interrupted all the time?" (shared experience).

Positive identity. A second cue for potential helpers involves creating or enhancing their recognition that they are uniquely placed (by virtue of their attributes or role) to provide assistance and that they are not merely people who might help you but helpful people who routinely come to others' aid. For example, studies have shown that people contribute more to charity when asked if they would like to "be a generous donor" (versus "to donate") and that children as young as three are more motivated to complete tasks such as cleaning up blocks when told they can "be a helper" (versus "can help"). Remember, however, that people don't all have the same vision of positive identity, so tailor your message. Research on pro-environment appeals suggests, for instance, that liberals prefer phrases such as "care for the natural world" and "prevent the suffering of all life forms,"



whereas conservatives respond better to "show your love for your country" and "take responsibility for yourself and the land you call home."

Gratitude is another powerful way to boost helpers' positive identity. A recent study by the productivity software company Boomerang of 350,000 e-mail exchanges found that "Thanks in advance" and "Thanks" yielded average response rates from 63% to 66%, compared with 51% to 54% for other popular options including "Best," "Regards," and "Cheers." Even expressed preemptively, gratitude can keep people interested and invested in helping you, as long as you focus more on their generosity and selflessness—and what that says about them as people—than on how you'll benefit from the help.

PEOPLE WANT TO SEE OR KNOW THE IMPACT OF THE AID THEY WILL GIVE. THIS ISN'T AN EGO THING.

Effectiveness. People want to see or know the impact of the aid they will give. This isn't an ego thing. Many psychologists believe that feeling effective—knowing that your actions created the results you intended—is the fundamental human motivation; it's what truly engages people and gives their lives meaning. Consider a study that Wharton's Adam Grant conducted at an outbound call center in an educational and marketing software company. Employees knew that the revenue they generated supported jobs in another department, with which they'd previously had no contact. After one of the beneficiaries of their work visited and spoke to them about their impact on his and others' jobs, the call center's sales and revenue doubled. To ensure that your potential helpers know that their assistance will matter, be very clear about what you need and its projected impact. For example, when asking a colleague to review a client proposal, you might say, "Would you please review this before I send it to XYZ? Your input really helped my previous pitch to ABC succeed."

Promise to follow up afterward, and do so. If possible, also allow people to choose how they help you, and be willing to accept alternatives to your original request. You want helpers to give what they can—and what will make them feel most effective.

PERSONAL AND PROFESSIONAL

When I explain to people how these strategies work in practice, I often give an example from my personal life, involving an IKEA bookshelf. About a year ago, a friend from graduate school asked me to help her assemble a particularly complicated one, and—this might surprise you—I eagerly agreed. That same morning, I'd turned down a request to review a submission to a scientific journal, ignored an e-mail from my daughter's school asking for parent volunteers to help with an ice cream party, and grudgingly said I would do our family's laundry but refused to fold it. So why was the DIY request an easy yes?

One reason is that the person asking was a long-standing friend with whom I enjoy spending time (*in-group* reinforcement). Another is that I'm weirdly good at such projects (owing less to my construction prowess than to my ability to interpret poorly written directions), and for years I'd been her go-to gal for help with them (*effectiveness*). And finally, whenever we work together in this way, my friend always wraps up by saying something like "Heidi, thank you. You are always so helpful and generous" (*positive identity*).

I've seen situations play out the same way in professional settings. Consider the head of product development at a learning software company who wanted more input with the sales department, which was making his team's work difficult by agreeing that highly customized orders would be delivered according to near-impossible schedules. He pleaded to be included in discussions with clients but was often ignored; the people in sales believed that he would slow them down and be an obstacle to their success. Of course, all parties felt they were doing what was best for the company, but in their own ways.

Eventually, the frustrated executive decided to take a fresh approach to getting the cooperation he needed from his colleagues. He set up a meeting with sales leaders to talk through the product development process, realizing that most of the team had no idea what work was involved. In other words, they didn't understand why their help was needed. He began to emphasize in every interaction that they all shared the goal of pleasing the customer to ensure repeat business, creating a strong sense of *in-group* with the sales team. Suddenly it was clear that everyone was on the same side. He also started describing sales leaders as the protectors of customer experience and talked about the power they wielded in determining the future of the company's brand, which gave them a strong *positive identity* and motivated them to see and approach their work in a slightly different way.

Finally, whenever salespeople did what he asked and included him in the work proposal process, he made a point of following up with them to say how important it had been to the ultimate success of the delivery. They saw their help land and felt its *effectiveness*.

Over time, these strategies dramatically improved relations between the two teams, and the company saw increases in both client satisfaction and profitability.

When you next find yourself in need of help, remember that people are willing to give it much more often than not. Few will think less of you for needing assistance. And there is no better way to make someone feel good about himself or herself than to ask for it. It brings out the best—and the best feelings—in all of us.

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WHAT HELPERS NEED

1 *The helper must realize that you need help.* Human beings are, as a rule, preoccupied with their own affairs. This is particularly true for people in negative moods or positions of relative power over others. So the first step is making people aware of your problem.

2 *The helper must believe that you want help.* Sometimes people fail to offer help not because they don't see the need but because they're worried that they've misconstrued the situation or that you prefer to go it alone. They expect you to come to them, forgetting how reluctant most of us are to ask for help.

3 *The helper must take responsibility for helping.* One of the biggest obstacles to helping is diffusion of responsibility. A classic error is asking for help via group e-mail. Instead take the time to ask potential helpers directly and with unique appeals.

4 *The helper must be able to provide what you need.* People are busy, and not all of them have the skills or the resources to help you. But you can make any request seem more manageable by being explicit and detailed about what you are asking for, keeping the request reasonable, and staying open to receiving help that is different from what you asked for.

HEIDI GRANT, a psychologist who studies motivation and communication, is the author of several books, including *No One Understands You and What to Do About It* and *Nine Things Successful People Do Differently*. Her new book is *Reinforcements: How to Get People to Help You* (Harvard Business Review Press, 2018).


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IELTS Umbrella
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CASE STUDY

TRUST THE ALGORITHM OR YOUR GUT?

A VP DECIDES WHICH CANDIDATE TO PROMOTE. BY JEFFREY T. POLZER

Aliyah Jones was having trouble paying attention to the farewell toasts. Although she was sad to see her longtime colleague Anne Bank go, she was more consumed with trying to figure out who should replace her.

As a VP of sales and marketing for Becker-Birnbaum International, a global consumer products company, Aliyah knew she needed a talented marketing director to support her division's portfolio of 34 products. After working with HR to narrow down the list of candidates, she had two finalists, both internal: Molly Ashworth, a brand manager on her team in the cleaning division, and Ed Yu, a rising star from BBI's beauty division.

Aliyah liked Molly and respected her work. Two years earlier, Molly had spearheaded a new subscription service for BBI cleaning products, which had shown strong growth in the past two quarters. Customers seemed to love the convenience, and the R&D, marketing, and executive teams had gotten excited about the service as a platform to test new offerings. Having mentored Molly through the pitch and launch of the service, Aliyah was intimately familiar with her protégé's strengths and weaknesses and was certain that she was ready for the next challenge.

But soon after the position had been posted, Christine Jenkins, a corporate VP of HR, had come to Aliyah with Ed's résumé. Like Molly, Ed had joined BBI right out of business school and been quickly tapped as a high potential. He also had his own BBI success story: As a brand manager in the beauty group, he had revived its 20-year-old FreshFace makeup-removal product line, increasing sales by 60% in three years. Perhaps more important to Christine, he'd been recommended as a 96% match for the job by HR's new people-analytics system, which she had championed. (Molly had been an 83% match.) The goal of the initiative was to expand the use of data analytics to human

JEFFREY T. POLZER is the UPS Foundation Professor of Human Resource Management in the organizational behavior unit at Harvard Business School.

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study "Susan Cassidy at Bertram Gilman International" (case no. 417-053), by Jeffrey T. Polzer and Michael Norris.

CASE STUDY CLASSROOM NOTES

Companies use algorithms in people-related decisions for many reasons, including consistency, reduced bias, casting a broader net, and efficiency. How might the recommendations an algorithm makes differ from those of a hiring manager who is not using data analytics?

Does using algorithms for any type of people analytics violate employees' privacy? New laws—in particular, the EU's General Data Protection Regulation (GDPR)—are setting limits on what information employers can and cannot collect, and how employees must be notified.

Research shows that hiring managers typically form opinions about a candidate's personality and competence in the first 30 seconds of an interview.

resources, to inform hiring, promotion, and compensation decisions. Aliyah was glad to see two insiders in contention—she'd come up the ranks herself—but that made the decision harder.

As the COO made a toast to Anne, Aliyah considered her interviews with Ed and Molly.

MEETING ED YU

"I'm sorry I'm so late," Ed said, looking a little discombobulated. "My Uber driver insisted he knew a shortcut from Heathrow—but he was wrong."

Aliyah couldn't help drawing an immediate comparison with Molly, who was always steady and calm, but she tried to keep an open mind.

"No problem," she said. "Shall we get started?"

"Absolutely," Ed said eagerly.

"What interests you about the job?"

Ed explained that while he was proud of the growth FreshFace had seen under his leadership, he was ready for a new challenge. He'd enjoyed diving deep into one product but felt his skills were better suited for a position that would allow him to work across programs and direct a larger portfolio.

Sharp, clear answer, Aliyah thought. "What have you learned in beauty that would apply in cleaning?" she asked.

This was an important question. BBI's top team had directed the divisions to share more best practices and improve collaboration. In fact, her boss wanted her to work more closely with her peers in other divisions.

Ed explained how he thought his division's approach to in-field customer research, which he credited with boosting FreshFace sales, could work in cleaning. Partnering with anthropologists was something Aliyah's team had talked about but hadn't yet tried out.

He also asked about the new subscription program, referencing a recent white paper on trends in subscription business models. He'd clearly done his homework, was smart and ambitious, knew BBI's business well, and seemed eager to learn. But his answers and even his questions seemed a bit stiff. Aliyah didn't sense the dynamism or entrepreneurial mindset that she knew Molly had. *Maybe he's nervous,* she thought. *Or maybe that's just who he is.*

Aliyah didn't doubt Ed could do the job. But she didn't feel excited about hiring him.

MOLLY'S "INTERVIEW"

Setting Molly's interview up for the same day as Ed's had seemed like a great idea when she'd suggested it to Christine, and given the noon time slot, it had been only natural to meet at their usual lunch spot near the office. But as soon as Aliyah walked into the café, she realized how unfair these back-to-backs were to Ed.

It was impossible not to hug Molly hello and ask for a quick update on her projects and family. They even ordered the same thing: curried egg salad. But as soon as the waitress left, Molly got down to business: "I know we e-mail 10 times a day, but I'd like to treat this as a formal interview."

Aliyah smiled. "Of course."

As Christine had advised her to do, she asked questions that were the same or similar to the ones she'd asked Ed.

"Tell me why you're interested in this job," she started. It was awkward. Aliyah knew the answer already, but to Molly's credit, she proceeded as if they weren't close colleagues. With each response, she demonstrated deep knowledge of the business, and she had good ideas for collaborating across programs and building on the success of the subscription program. She was as polished and thoughtful as Ed, but she also seemed warmer and more self-aware.

Knocked it out of the park, Aliyah thought, as they walked back to the office. Looking at the smile on Molly's face, Aliyah knew her protégé was feeling confident that she'd done well.

THE ALGORITHM

The day after Anne's farewell party, Aliyah met with Christine and Brad Bibson, a data scientist on the people analytics team.

"I know you were leaning toward Molly after we debriefed the interviews," Christine said, "but we

Managers tend to hire people similar to themselves, studies show. For example, Kellogg School of Management professor Lauren Rivera found that managers prefer recruits who have the most potential to become friends, even over those who are more qualified. Should Aliyah worry that she's choosing Molly because she likes her?

Unstructured interviews are the default method for most hiring managers, but numerous studies have found them to be poor predictors of actual on-the-job performance.

wanted to share some more data."

Brad handed over two colorful diagrams. "These are network analyses of Molly's and Ed's e-mail and meeting history at BBI. With their permission and without looking at the content of their e-mails or calendars, we analyzed who they'd been in contact with across the firm over the past six months."

It was clear from the diagrams that Ed was connected to not just his beauty division colleagues but also key people in other groups. Molly's network was mainly within cleaning products.

"I didn't know we were doing this kind of analysis," Aliyah said.

"We've just started looking at networks," Brad said, "and we think they can reveal useful insights."

"I know one chart isn't going to sway your decision," Christine said, "but better to have the data, right? You wouldn't launch a new product or a new campaign without data. HR decisions should be approached the same way." It was a pitch that Christine had made countless times while stumping for the new initiative. "We're confident that decisions made using our algorithms are reasoned, strong, and less biased by personal feelings toward employees," she said.

Aliyah turned to Brad. "I assume you agree?"

"Of course," he said, watching for Christine's reaction. "But as a data scientist, I also encourage healthy skepticism. Our algorithm is brand-new. We've used it to inform three promotion decisions so far, but it's too early to tell how those people are doing. I don't want to give the impression that we're 100% confident."

Christine looked annoyed. "I appreciate your caution, Brad, but we've heard from the hiring managers that the type of recommendations the algorithm provides is changing the way they think about positions and candidates. And we've been testing the system for months now."

Aliyah sighed. "I'd trust the algorithm more if I understood it better." She knew she wasn't alone in her hesitation: Christine's team had gotten a lot of questions about the methodology, despite the companywide training sessions.

"I'd be happy to talk more about how the algorithm works," Christine replied, "but right now you should focus on the two candidates. The point of the system isn't to replace your judgment. The aim is to surface qualified people you wouldn't otherwise know about so you can make a more informed decision."

"It'll help you make a less-biased decision too," Brad chimed in, "by relying more on the data and less on gut instinct."

Aliyah wondered whether Brad thought she was unfairly favoring Molly. She worried about that herself and cared deeply about making an objective decision. Would trusting the new system help her do that?

"But the algorithm's not completely neutral either, right?" she said. "You're still relying on information—performance reviews, résumés—that conceivably has bias baked into it."

"Fair point," Christine conceded, "and we've worked hard to control for that. But as a data-driven firm, we have to extend our approach to the most important part of our business: people."

"It feels like you're pushing Ed for this position," Aliyah said.

"Remember, I have to take a broader view," Christine said. "We ran analysis to show which high potentials are at risk of leaving BBI, and Ed was near the top of the list. There is not likely to be an opening in beauty products, and we want to keep him."

"But what about Molly?" Aliyah said. "She'll be devastated if she doesn't get this job, and I'm sure she'd start looking too."

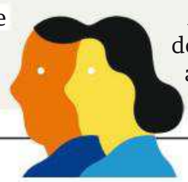
"Our analysis didn't flag her as a flight risk," Brad said. "But you could be right."

DECISION TIME

A week later, Aliyah wasn't any closer to a decision. She'd been avoiding Molly and had put Brad's analyses in a drawer. Ed was clearly qualified, and he'd impressed her. But she knew intuitively that Molly was ready for the job.

Did she prefer Molly because of their close relationship? Would Molly stay at BBI even if she was passed over?

Aliyah needed to make a decision. Should she trust the algorithm or her instincts?



Network analyses can reveal patterns that are otherwise hard to see—for example, by identifying which employees are most central to informal information flows.

Studies have revealed a phenomenon called "algorithm aversion." Even when data-driven predictions yield higher success rate than intuitive human forecasts, people often prefer to rely on the latter. And if they learn an algorithm is imperfect, they simply won't use it. Under what conditions would you base a decision on data analysis?

Along with managers, many applicants are skeptical of algorithms, according to Pew. A majority of Americans (76%) say they would not want to apply for jobs that use a computer program to make hiring decisions.

Data scientist Cathy O'Neil warns in her book *Weapons of Math Destruction* that although algorithms are fairly easy to create using historical data and can improve the efficiency of decision making, people often rely on them without understanding the biases they may be propagating.

How does using algorithms to analyze customers differ from using them on employees? Should companies be more cautious in implementing these methodologies internally?

SEE COMMENTARIES ON THE NEXT PAGE

SHOULD ALIYAH HIRE MOLLY OR ED? THE EXPERTS RESPOND

AS AN ENTHUSIAST and practitioner of people analytics for many years, I believe that it is best applied as a complement to, not a substitute for, human judgment. For example, an algorithm could be used to widen the set of candidates a hiring manager might consider for a role. In the case of BBI, the people analytics system appears to have done a good job in surfacing Ed, an unexpected candidate.

If the algorithm is going to make the promotion decision on Aliyah's behalf, however, the burden of proof is very high. BBI's track record of three decisions isn't enough, in my opinion, to demonstrate the system's reliability. When it comes to hiring and promotions, it is especially important to be able to explain why a particular choice is being made. Aliyah is right to want more clarity on the system's methodology. She needs to know not just which candidate the algorithm is recommending but on what basis.

So what would I suggest that Aliyah do? She should define exactly what she's trying to achieve in filling the role—something the algorithm is not likely to know—and base her decision on that. If success for Aliyah means bringing a talented marketing director on board as soon as possible and having that person operate at the highest velocity right away, then Molly appears to be the better fit. If Aliyah is more keen on increasing collaboration with other parts of the company, then Ed, who has a wider network of relationships, seems to be the smarter choice. In either case, it's important for Aliyah to own the decision and be able to articulate why she made a particular choice.

In an ideal world, BBI would strive to make objective, unbiased hiring decisions by setting up a structured interview protocol and evaluation process, predetermining criteria, and defining what poor, mediocre, and great skills in candidates would look like. The company would advertise all roles to attract a broad applicant pool. Multiple people would conduct the evaluation, and the people making the final decision would not be the same people who evaluated the candidates. Analytics could be used to set up these protocols, recommend potential candidates, and track the impact of decisions on on-the-job performance. That's not what's happened in this case: Aliyah now has to select one of the candidates on the basis of BBI's existing process, the information she has, and what her goals are.

At Google, our managers don't make hiring and promotion decisions unilaterally. All open positions are made public within the organization, and anyone is free to apply. We use independent committees to assess applicants using a structured rubric detailing what it takes to succeed in the job. We analyze the outcomes of these processes—for example, whether people thrive in their new roles—to ensure that we make high-quality people decisions.

IF THE ALGORITHM IS GOING TO MAKE THE PROMOTION DECISION ON ALIYAH'S BEHALF, THE BURDEN OF PROOF IS VERY HIGH.

When we started Google's people analytics group, our goal was *to make all people decisions based on data and analytics*. In the decade since then, we have seen some of the limits of data-driven human resources decision. Our goal now is to arm leaders with data and context so that they feel more confident in their choices, but not to undercut their role in the process. Today, our team's mantra is *to help all people make decisions based on data and analytics.*

PRASAD SETTY IS THE HEAD OF PEOPLE ANALYTICS AT GOOGLE.

PATTY MCCORD IS THE FORMER CHIEF TALENT OFFICER AT NETFLIX AND AN ADVISER TO START-UPS AND ENTREPRENEURS.

ALIYAH SHOULD TRUST her instincts, not the algorithm. Only she knows what she truly needs from a director of marketing, and it's clear that Molly has it.

Before I left Netflix, I was pitched by a lot of data analytics companies that promised to help us make better people decisions using their algorithms, but I didn't see the ROI. At the time, we employed a few thousand people, and the cream was already rising to the top, so it was hard to imagine how an algorithm would significantly improve our decisions. BBI is a much bigger company, so it's possible that AI could be more useful in that context. But for now, the decision should rest with Aliyah.

Of course, she needs to follow best practices for hiring managers and look at the team as a whole in her analysis. What is its current makeup, and how will the newly promoted director fit in? What results would Aliyah expect to see in six months to a year to demonstrate that the division is working well? And with the proper support, which candidate is most likely to achieve those results?

Aliyah is also right to question her own bias toward a woman she considers a protégé and with whom she has worked closely for several years. Hiring managers often say, "I'm looking for someone who is smart, solid on their feet, and ready to jump into the role," and it just so happens that the person they like best looks just like them. This isn't always overt bias. It's often a matter of not wanting to take a risk.

Although I don't see any evidence that Aliyah is favoring Molly because she's a woman, I do think gender should be a consideration in this case. Research has repeatedly demonstrated that women are not promoted at the same rate as men. Throughout my HR career, I've seen men consider female candidates but hire a man instead, telling me, "I know she's qualified, but I'm looking for someone who is ready to step up now, and I don't want to set her up to fail." Of course, you can't be set up to win if no one gives you the opportunity to fail. I worry that if Molly doesn't get this chance, she might not get another.

Christine touts her algorithm as unbiased, but without more information about the methodology and the criteria it uses, we can't be sure she's right. In fact, I'm particularly suspicious of the network data Brad brought to the meeting. Could it be that Ed is more connected—that he's invited to more meetings, in touch with more people—because he's a man and has been given more opportunities to shine? If I were Aliyah, I'd ask what those network maps look like for men and women across the company.

CHRISTINE TOUTS HER ALGORITHM AS UNBIASED, BUT WITHOUT MORE INFORMATION ON THE CRITERIA IT USES, WE CAN'T BE SURE SHE'S RIGHT.

I'll admit that if the gender roles were reversed in this case, with a male hiring manager favoring a male candidate he knew well over a woman recommended by an algorithm, my advice would probably be different. In this case, the algorithm has done its job in recommending an unexpected man. But if Aliyah has conducted a fair analysis—consciously setting her preconceptions aside and objectively considering who is best for the job—and she still prefers Molly, she should trust her gut and promote her.

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Reprint Case only R1803X
Reprint Commentary only R1803Z

COMMENTS FROM THE HBR.ORG COMMUNITY

It's Personal
Algorithms help identify potential candidates, but they may not be able to tell how well an employee can integrate into a new team. Intangibles such as personal chemistry and ability to work together cannot be determined with something as clinical as an algorithm.
Thorfida Charles, lead consultant, Reliance Professional Systems and Services

Go for Ed
Not only does the data show that Ed is better suited for the position but he interviewed very well. Molly has an unfair advantage, and a decision to promote her over Ed would appear to be biased and based on personal opinion.
William Cummings, disclose operations executive, PR Newswire/Cision

Give It Time
I would introduce a rule that candidates must match a certain percentage of the criteria—over, say, 80%—to qualify for consideration. From there, the line manager leads the decision-making process. Algorithms "learn" and become more accurate as data is fed in. A year down the line, this algorithm should be more reliable.
Daniel Vacassin, founder, Indigogold


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The Changing Nature of Work:

Why Lifelong Learning Matters More than Ever

Technology is redefining the nature of work—in every industry, at every job level. Against this backdrop, an educated workforce with advanced skills is ever more critical to keeping pace with and— more importantly—driving and capitalizing on the inevitable march of technology.

By Lynne Doughtie
Chairman and Chief Executive Officer, KPMG LLP

We live in exciting and challenging times. Technology is making our world smaller and more connected, but also more complicated. On the economic front, nearly nine straight years of growth have driven unemployment down and, finally, wages up. But as the job market tightens and the nature of work evolves, many businesses are finding it difficult to attract and retain employees with the skills needed to sustain growth in the 21st century.

Part of the problem is that many workers are struggling to take advantage of the opportunities afforded by technological disruption. Thanks to advances in fields like artificial intelligence and robotic process automation, half the millennial workforce is expected to find work in jobs that have yet to be created. Yet, in the U.S. alone, more than 1.2 million students drop out of high school every year, and less than 40 percent of graduating seniors have mastered reading and math.

The solution? Joseph Aoun, president of Northeastern University and author of the new book, "Robot-Proof," argues that lifelong education is critical to keeping workers and their employers competitive.

At KPMG, we couldn't agree more. Like many socially responsible organizations, KPMG and its people support a wide range of initiatives that seek to benefit society and safeguard the environment—donating more than $105 million to nonprofits in 2017 and logging over 500,000 volunteer hours during the year. However, the primary focus of our citizenship efforts is lifelong learning, a passion centered on programs spanning the educational continuum across all ages. In concert with our philanthropic arm, the KPMG U.S. Foundation, Inc., we seek to empower young people, prepare tomorrow's leaders, and, today more than ever, expand the skill sets of professionals well into their careers. Lifelong learning is fundamental to building strong communities, companies and economies.

> *"Lifelong learning is fundamental to building strong communities, companies and economies."*

The results of our efforts are tangible and worth celebrating. Our flagship initiative, KPMG's Family for Literacy, has put four million new books into the hands of children in need—and pairs our people with primary schools where they volunteer their time reading to young students. At the other end of the learning continuum, The PhD Project, launched 24 years ago by the KPMG Foundation and three other sponsors, is the only national program promoting diversity among business school faculty. Over the past two decades, it has helped add approximately 1,000 minority faculty to college teaching ranks, with another 270 minority doctoral students on their way to joining them. Dr. Michelle Harding, assistant professor of accounting at Virginia Tech, has written: "I would not have applied to a PhD program when I did, I would not have applied to the schools that I did, and I would not have successfully completed my PhD program without the information and community of support provided by The PhD Project."

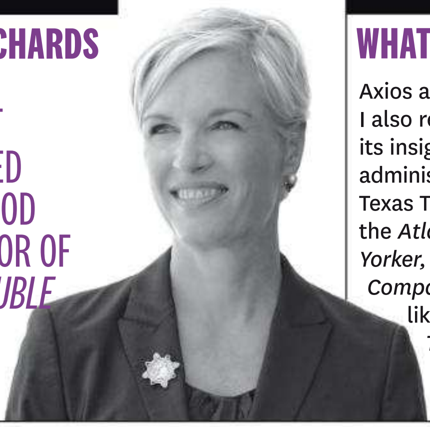
At KPMG, we're fully committed to lifelong learning not just as a concerned corporate citizen but as an enterprise passionate about meeting the ever-expanding needs of our clients and the evolving business world. It's why we broke ground last year on a state-of-the-art learning, development and innovation facility in Orlando, Florida. We estimate that 900,000 hours of training will be conducted there each year. This significant investment in our professionals will ensure they continue to have access to opportunities to enrich themselves and stay connected to our values and culture. It also will help ensure they remain ready and able to deliver the highest quality service to our clients, our communities and the capital markets we serve. And, it provides us with the ability to extend learning opportunities to our clients.

We need more professors like Michelle Harding. We need more children who read proficiently, more high school graduates prepared for college and future careers, and more workers keeping pace with disruptive technology. At KPMG, we believe lifelong learning can go a long way toward making that happen.

Find out more about KPMG's commitment to empowering our communities at KPMG.com/us/lifelonglearning.

CECILE RICHARDS

PRESIDENT OF PLANNED PARENTHOOD AND AUTHOR OF *MAKE TROUBLE*



WHAT I'M READING...

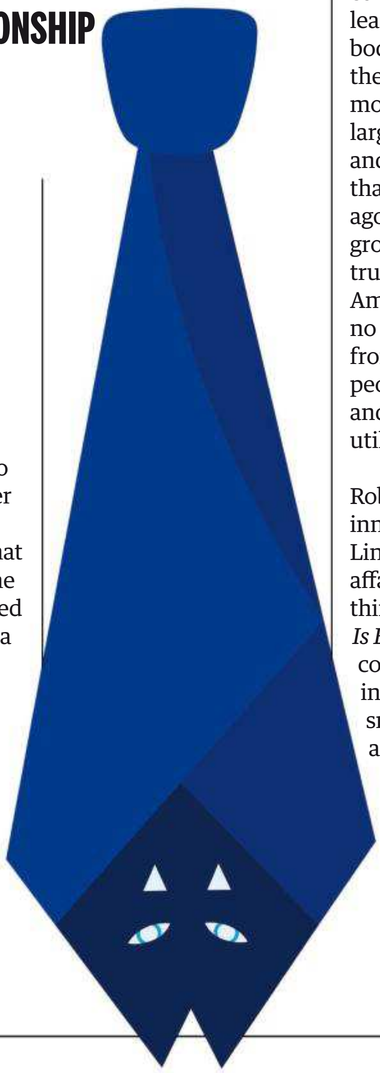
Axios and Politico are good for DC news. I also read the *Washington Post* for its insightful reporting on the Trump administration and, since I'm from Texas, the Texas Tribune. Favorite magazines include the *Atlantic*, for great writers; the *New Yorker*, for smart long-form journalism; *Fast Company*; *New York*; and women's titles like *Cosmo, Elle, Essence, Ebony*, and *Teen Vogue* (now online), because they're increasingly covering not just makeup and fashion but all kinds of women's issues. As for books, I'm working on a review of *God Save Texas*, by Lawrence Wright. I have Paulette Jiles's *News of the World* and Michael Eric Dyson's *Tears We Cannot Stop* stacked by my bed. Two I give to people are Tracy Kidder's *Mountains Beyond Mountains*, about the humanitarian work of Paul Farmer, and William Finnegan's *Barbarian Days: A Surfing Life*, which is about following what brings you joy.

SYNTHESIS

THE CONUNDRUM OF CORPORATE POWER

OUR LOVE-HATE RELATIONSHIP WITH BIG BUSINESS

BY WALTER FRICK



The first episode of *Capitalisn't*, a new economics podcast by Kate Waldock, of Georgetown University, and Luigi Zingales, of the University of Chicago, contemplates a future in which Facebook's Mark Zuckerberg becomes president of the United States and revises antitrust law to make sure his company can never be broken up. Zingales, who was born in Italy, reminds listeners that the disgraced former Italian prime minister Silvio Berlusconi parlayed his ownership of dominant media assets into the country's highest political office and notes that if Zuckerberg did the same, he would end up controlling both the U.S. government and what is arguably the world's most important communications network—and would therefore wield "absolute power."

But few of us need a Zuckerberg 2020 campaign to start worrying about the outsize influence that America's largest companies and the people who lead them now have. A significant body of research suggests that the biggest organizations in most industries account for a larger percentage of revenues and profits in their markets than they did a decade or two ago and that their power has grown. Meanwhile, the public trusts them less: Roughly 40% of Americans say they have little or no confidence in big business, up from just 24% in 1985, and more people are suggesting that Google and Facebook be regulated like utilities, or even broken up.

Are these concerns justified? Robert Atkinson, a DC-based innovation expert, and Michael Lind, a visiting professor of public affairs at the University of Texas, think not. In their new book, *Big Is Beautiful*, they argue that large companies are more productive, innovative, and diverse than small ones. These companies also provide higher wages, more training, and broader benefits to employees and spend more money to limit pollution. When Americans lionize small mom-and-pop shops and lambaste big business, the authors conclude, they are getting it wrong.

As contrarian as this may sound, much of it is in fact conventional wisdom among economists and policy wonks. Research suggests that the only small enterprises truly driving the economy are the rare fast-growing, innovative new ones that hope to one day be big. However, Atkinson and Lind take the argument further than most, attacking the "antimonopoly tradition" set by U.S. Supreme Court Justice Louis Brandeis in the early 20th century and standing up for markets dominated by just a few companies.

At times they do overreach: Big Food is an environmental and nutritional disaster; big banks helped cause the financial crisis. But the authors are correct that many people overrate both the benefits of small business and the evils of bigness. And although antimonopolism is rightly getting renewed attention, it is not equipped to deal with most of what ails the economy.

Capitalisn't
Kate Waldock and Luigi Zingales
Produced by Derek L. John

PLANNED PARENTHOOD FEDERATION OF AMERICA; NUSTOCK/ISTOCK

WHO I'M FOLLOWING...

I don't use Twitter for breaking news, but I follow women writers who are on the cutting edge of culture and politics—Rebecca Traister, Anna Holmes, Karen Tumulty, Jill Filipovic—and irreverent celebrities like Don Cheadle and Chrissy Teigen.

WHAT I'M LISTENING TO...

There's nothing like a one-hour episode of *This American Life* for a run around Central Park. And although I find podcasts to be hit or miss, I'll sometimes try *The Axe Files* or *Pod Save America*.

WHERE I'M GOING...

Conferences are a great way to hear from people outside your field. I loved speaking at SXSW, the Business for Social Responsibility conference, and *Fast Company*'s Innovation Festival last year. At a recent MAKERS conference I met Ella Bell Smith—an academic I wouldn't have met otherwise—who has since become a friend and a speaker for Planned Parenthood around the country.

If size itself isn't the problem, what is? Perhaps, as *Capitalisn't* suggests, it's the troubling intersection of economic and political power. In *The Captured Economy,* Brink Lindsey and Steven Teles, of the libertarian Niskanen Center, argue that too many corporations—both large and small—now have undue influence over public policy. They offer the financial sector, real estate, intellectual property, and occupational licensing (the credentialing process for someone joining a profession) as case studies and warn that when the public isn't looking, companies and industry organizations will shamelessly lobby for laws beneficial to themselves, often without opposition.

Although Lindsey and Teles come off as far more skeptical of big business than Atkinson and Lind (almost anyone would), there is overlap in their analyses. All four seem to agree that the problem with big business isn't size but whether that size confers illegitimate power. And all four agree that small businesses, too, can corrupt policy making.

Lindsey and Teles suggest reforms that would give lawmakers better access to independent information and analysis, limiting their reliance on corporate lobbyists and the reports they push. But the antimonopolists whom Atkinson and Lind rebut will no doubt remain skeptical. If economic power stays concentrated, can it ever be kept from translating into political power?

Historically, one countervailing force to such dominance has been creative destruction, through which new companies disrupt old ones, and entire industries rise or disappear. Hemant Taneja, the author of *Unscaled,* thinks we're living through such a wave. As a Silicon Valley venture capitalist, he says, he sees two trends—demand for hyperpersonalized products and entrepreneurs' ability to "rent scale" in the cloud—that are putting incumbents at an increasing disadvantage. (Disclosure: Early in my career I worked for an organization Taneja cofounded and chaired. I edited his first piece on the economies of unscale for HBR.org.)

Stripe, one of Taneja's VC investments, is emblematic of these new market dynamics. It offers smaller businesses the chance to rent payment-processing services and thereby compete cheaply against larger companies, and it has succeeded in part because existing financial services firms were unable to offer the same, despite their superior resources. Taneja doesn't imagine an economy with no large companies—his book has a section on platforms and the risk of AI-powered monopolies—but he sees relatively smaller, more focused ones such as Warby Parker succeeding against giants such as Luxottica.

Again, however, anyone worried about big organizations wielding even bigger influence is likely to remain unconvinced. Sure, some early evidence exists that young companies are uniquely able to benefit from cloud computing and are more likely to survive as a result. But digital technology also seems to have helped the biggest players in each industry expand.

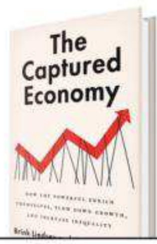
Whether the new cloud- and AI-enabled start-ups pose real threats to today's giants or will be felled or acquired before they can supplant them is an open question. After all, Instagram and WhatsApp both illustrated the speed at which small, focused companies can quickly scale up and threaten larger rivals. But both ended up as part of Facebook—and that was without Zuckerberg in the White House.

"THIS IS THE PROBLEM OF PUTTING TOGETHER POWER THAT COMES FROM BUSINESS AND POWER THAT COMES FROM GOVERNMENT. IT BECOMES ABSOLUTE POWER. AND, AS YOU KNOW, ABSOLUTE POWER CORRUPTS ABSOLUTELY."

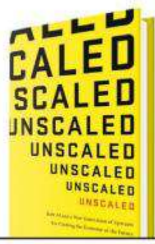
Luigi Zingales, *Capitalisn't*

WALTER FRICK is a senior editor at *Harvard Business Review.*

Big Is Beautiful: Debunking the Myth of Small Business
Robert D. Atkinson and Michael Lind
MIT Press, 2018



The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality
Brink Lindsey and Steven M. Teles
Oxford University Press, 2017



Unscaled: How AI and a New Generation of Upstarts Are Creating the Economy of the Future
Hemant Taneja
PublicAffairs, 2018

SPOTLIGHT

DO ENTREPRENEURS NEED A STRATEGY?

Some start-up founders follow a business plan; others operate by the seat of their pants. This package looks at how entrepreneurs can carefully craft a strategy in advance—and whether that's what they should do.
page 43

STRATEGY FOR START-UPS

In their haste to get to market first, write Joshua Gans, Erin L. Scott, and Scott Stern, entrepreneurs often run with the first plausible strategy they identify. They can improve their chances of picking the right path by investigating four generic go-to-market strategies and choosing a version that aligns most closely with their founding values and motivations. The authors provide a framework, which they call the entrepreneurial strategy compass, for doing so.

IT'S NOT ABOUT THE FRAMEWORK

The Syracuse University professor Carl Schramm argues that contrary to the teaching at many business schools, entrepreneurs really have no alternative to learning by doing.

"CREATE SOMETHING AND START SELLING IT"

A conversation with the start-up veterans Niraj Shah, Bijan Sabet, and Jennifer Lum, by Daniel McGinn and Walter Frick

THE COMPLETE SPOTLIGHT PACKAGE IS AVAILABLE IN A SINGLE REPRINT. **HBR Reprint** R1803B

HOW I DID IT

STRATEGY

STITCH FIX'S CEO ON SELLING PERSONAL STYLE TO THE MASS MARKET

Katrina Lake | page 35

Lake's experience as a consultant to retailers and restaurants led to a fascination with how untouched those industries were by 21st-century technology. As a lover of both clothes and data, she felt certain that data could create a better experience with apparel—as long as the human element was preserved.

From the beginning Lake planned to build a data science operation to make Stitch Fix scalable. The company's revenue is dependent on great recommendations from its algorithm, so its data scientists have a direct line to the CEO. Data science is deeply ingrained in the company culture: In addition to client recommendations of clothing, algorithms keep capital costs low, inventory moving, and deliveries efficient. Product development has adapted algorithms from genetics to find successful "traits" in clothing. Stitch Fix has even used machine learning to design apparel.

But, Lake says, shopping is inherently a personal and human activity, which is why human stylists can alter or override the product assortment a styling algorithm delivers before the client receives a shipment.

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FEATURES

MANAGING YOURSELF

THE SURPRISING POWER OF QUESTIONS

Alison Wood Brooks and Leslie K. John | page 60

Much of an executive's workday is spent asking others for information—requesting status updates from a team leader, for example, or questioning a counterpart in a tense negotiation. Yet unlike professionals such as litigators, journalists, and doctors, who are taught how to ask questions as an essential part of their training, few executives think of questioning as a skill that can be honed—or consider how their own answers to questions could make conversations more productive.

That's a missed opportunity. Questioning is a powerful tool for unlocking value in companies: It spurs learning and the exchange of ideas, it fuels innovation and better performance, and it builds trust among team members. And it can mitigate business risk by uncovering unforeseen pitfalls and hazards.

Several techniques can enhance the power and efficacy of queries: Favor follow-up questions, know when to keep questions open-ended, get the sequence right, use the right tone, and pay attention to group dynamics.

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MANAGING ORGANIZATIONS

STRUCTURE THAT'S NOT STIFLING

Ranjay Gulati | page 68

Most leaders view employee freedoms and operational controls as antagonists in a tug-of-war. They tend to focus on regulating workers' behavior, often putting a damper on commitment, innovation, and performance without realizing it. But freedom and control aren't zero-sum, argues the author. By giving people a clear sense of their organization's purpose, priorities, and principles—that is, by providing

GUIDELINES ARE NOT THE DEATH OF FREEDOM IF THEY'RE WELL DESIGNED.

freedom within a galvanizing framework—leaders can equip employees to make on-the-ground decisions that are in the company's best interests.

Gulati uses businesses as diverse as Netflix, Alaska Airlines, and Warby Parker to show how freedom can function in different settings. A coherent framework helps employees develop a deeper understanding of the business, which can lead to improved engagement, creativity, efficiency, and customer service.

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MARKETING

MARKETING IN THE AGE OF ALEXA

Niraj Dawar and Neil Bendle | page 80

Over the next decade, as artificially intelligent assistants like Alexa and Siri become the main channel through which people get information, goods, and services, the way companies acquire, serve, and retain customers will radically change. Because the bots will have deep knowledge about individuals' habits and preferences, they'll be able to anticipate a consumer's needs even better than the consumer herself can. They'll ensure that routine purchases flow uninterrupted to homes and constantly scan and analyze complex offerings like insurance and data plans for the best deals. And the more AI assistants satisfy consumers, the more trust in them will replace trust in brands.

Marketing will soon become a battle for AI assistants' attention, say Dawar and Bendle. Brands will focus on influencing AI algorithms and compete for placement on the assistants' platforms. In return, brands will be able to get data on consumers from the platforms. That's something companies will need in this new world, because AI assistants' never-ending reassessment of purchases will force businesses to keep producing new tailored offers and innovations for customers.

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OPERATIONS

AGILE AT SCALE

Darrell K. Rigby, Jeff Sutherland, and Andy Noble | page 88

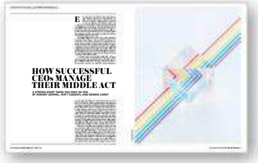
When implemented correctly, agile innovation teams almost always result in higher team productivity and morale, faster time to market, better quality, and lower risk than traditional approaches can achieve. What if a company were to launch dozens, hundreds, or even thousands of agile teams? Could whole segments of the business learn to operate in this manner?

As enticing as such a prospect is, turning it into a reality can be challenging. Companies often struggle to know which functions should be reorganized into multidisciplinary agile teams and which should not. And it's not unusual to launch dozens of new agile teams only to see them bottlenecked by slow-moving bureaucracies.

The authors, who have studied the scaling of agile at hundreds of companies, share what they've learned about how to do it effectively. Leaders should use agile methodologies themselves and create a taxonomy of opportunities to set priorities and break the journey into small steps. Workstreams should be modularized and then seamlessly integrated. Functions not reorganized into agile teams should learn to operate with agile values. And the annual budgeting process should be complemented with a VC-like approach to funding.

HBR Reprint R1803F

LEADERSHIP



HOW SUCCESSFUL CEOs MANAGE THEIR MIDDLE ACT

Rodney Zemmel, Matt Cuddihy, and Dennis Carey
page 98

Every leader knows the importance of the first hundred days or the first year in office—the period during which one must assess and diagnose, formulate a vision and a strategy, and achieve early wins. And guidance abounds for how CEOs in their final months on the job should approach their main responsibility: helping develop and select a successor and then smoothly handing over power. But little attention has been paid to the time between those stages. How can CEOs make the most of the middle years of their tenure?

The authors conducted detailed interviews with high-performing former CEOs, asking, among other things, how their priorities, mindsets, and approaches evolved in their second act. Five themes emerged as essential to success. Leaders should keep raising the company's level of ambition, attack silos and broken processes, rejuvenate talent, build mechanisms for dissent and disruptive ideas, and spend their accumulated leadership capital on bold long-term moves.

Beyond these specifics, the authors say, CEOs often benefit from viewing their tenure as a series of chapters rather than an undivided span.

HBR Reprint R1803G

MANAGING PEOPLE

TALENT MANAGEMENT AND THE DUAL-CAREER COUPLE

Jennifer Petriglieri
page 106

Companies invest heavily in grooming star talent for leadership—but most of them haven't figured out how to manage the growing population of employees who care deeply about their partners' or spouses' careers at the same time that they want to advance their own. As a result, many high potentials are heading for the nearest exit.

The author has seen this happen again and again in her research on dual-career couples in tech, health care, professional services, and other industries. She says the crux of the problem is that companies tend to have fixed paths to leadership roles, with set tours of duty and rigid ideas about what ambition looks like. That creates flexibility and mobility challenges for employees—and recruitment and retention headaches for employers.

Organizations must adopt new strategies for managing and developing talent. They can remove barriers to advancement by allowing people to develop skills and networks in more-creative ways—through brief "job swaps," for example, or commuter-leader roles. But often a culture change is needed. Instead of stigmatizing flexibility, companies must learn to embrace it.

HBR Reprint R1803H

DIVERSITY

WHAT MOST PEOPLE GET WRONG ABOUT MEN AND WOMEN

Catherine H. Tinsley and Robin J. Ely | page 114

Why have women failed to achieve parity with men in the workplace? Contrary to popular belief, it's not because women prioritize their families over their careers, negotiate poorly, lack confidence, or are too risk-averse. Meta-analyses of published studies show that those ideas are myths—men and women actually have similar inclinations, attitudes, and skills. What does differ is the way they are treated on the job: Women have less access to vital information, get less feedback from supervisors, and face other obstacles to advancement.

CONTEXT EXPLAINS ANY SEX DIFFERENCES THAT EXIST IN THE WORKPLACE.

To ensure gender equity, the authors recommend that managers: (1) question the stereotypes behind their practices; (2) consider other factors that might explain the achievement gap; (3) change workplace conditions accordingly; and (4) keep challenging assumptions and sharing learning so as to create a culture in which all employees can reach their full potential.

HBR Reprint R1803J

MANAGING ORGANIZATIONS

LAYOFFS THAT DON'T BREAK YOUR COMPANY

Sandra J. Sucher and Shalene Gupta | page 122

Today layoffs have become companies' default response to the challenges created by advances in technology and global competition. Yet research shows that job cuts rarely help senior leaders achieve their goals. Too often, they're done for short-term gain, but the cost savings are overshadowed by bad publicity, loss of knowledge, weakened engagement, higher voluntary turnover, and lower innovation, which hurt profits in the long run.

This article looks at better ways to handle changing workforce needs that make sparing use of staff reductions and ensure that if they do happen, the process feels fair and the affected parties have a soft landing. Most successful approaches begin with a philosophy that spells out a firm's commitments and priorities, establish methods for exploring layoff alternatives (such as furloughs, retraining, and reassignments), and determine options for three scenarios: a healthy present, short-term volatility, and an uncertain future.

As firms like AT&T, Michelin, Honeywell, and Nokia have learned, thoughtful planning helps organizations address workforce transitions and cope with a shifting economic landscape far better than layoffs do.

HBR Reprint R1803K

RISK MANAGEMENT

MANAGING 21ST-CENTURY POLITICAL RISK

Condoleezza Rice and Amy Zegart | page 130

Political risk was once relatively easy to define—more often than not, it involved dictators seizing foreign assets. Today it comes from a wide array of actors: citizens making videos on cell phones, city officials issuing ordinances, terrorists with truck bombs, cybercriminals, and more. Supply chains are longer—and more vulnerable—and the geopolitical landscape is more crowded and uncertain.

But just because you don't know exactly where political risk will come from, that doesn't mean you can't prepare for it, say Rice, the former U.S. secretary of state, and Zegart, the codirector for the Center for International Security and Cooperation at Stanford. Effective risk management is still fairly straightforward. Companies that excel at it are strong in four core competencies: understanding, analyzing, and mitigating risk, and responding to crises.

In this article, Rice and Zegart outline what each competency entails, providing questions that every organization can ask to identify gaps, along with case studies that illustrate how companies have successfully addressed real-world political threats.

HBR Reprint R1803L

MANAGING YOURSELF

HOW TO GET THE HELP YOU NEED

Heidi Grant | page 142

We're often reluctant to ask for help because of the social threats involved—uncertainty, risk of rejection, potential for diminished status, relinquishment of authority. But without support from others, it's virtually impossible to advance in your career. And studies show that most people are surprisingly willing to lend a hand—if you ask in the right way.

The author provides three reinforcements that can be incorporated in requests: (1) *In-group:* Assure the potential helper that you are on the same team and that the team is important. (2) *Positive identity:* Create or enhance people's recognition that they are uniquely placed to provide assistance and that they routinely come to others' aid. (3) *Effectiveness:* Be clear about what you need and about what impact the help will have.

HBR Reprint R1803M

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Printed in the U.S.A. *Harvard Business Review* (ISSN 0017-8012; USPS 0236-520), published every other month for professional managers, is an education program of Harvard Business School, Harvard University; Nitin Nohria, dean.

Published by Harvard Business School Publishing Corporation, 60 Harvard Way, Boston, MA 02163.

For more from Deepak Chopra, go to HBR.org

LIFE'S WORK
DEEPAK CHOPRA
HEALTH GURU

At age 45, Chopra left his career as a prominent physician and hospital administrator in Boston to start his own center, in California, focused on integrative medicine. The author of 86 books and a seasoned public speaker, he also advises organizations and individuals. *Interviewed by Alison Beard*

HBR: What key lessons do you share with leaders?
CHOPRA: I allow them to reflect: Who am I? What is my purpose? What brings me joy? What will my legacy be? Who are my heroes, mentors, and role models in history, religion, business? What are my unique strengths? How do I use them? The process is one not of seeking advice but of deep reflection, and at the end they chart their own course. Why do I want to be a leader? Whom do I want to lead? How do I get others to buy into my vision? The idea is to work toward taking responsibility for not only their own well-being—social, emotional, physical, financial, professional—but also that of others. If they're receptive, I then take them into meditation practices for tapping into higher consciousness, going beyond the mind to a deeper level of awareness. As I've coached leaders, I've heard many say, "I was lucky" or "I was in the right place at the right time." If they're religious, they use words like "God" or "grace." But I think success is opportunity and preparedness coming together, which happens only when you're aware. So I teach them how to be aware.

"WHEN PEOPLE SAY THEY DON'T HAVE TIME TO MEDITATE ONCE A DAY, I TELL THEM TO DO IT TWICE A DAY. IF YOU DON'T MAKE TIME TO TAKE CARE OF YOURSELF, YOU'RE REALLY IN TROUBLE."

Why did you shift from traditional to integrative medicine?
My training was in neuroendocrinology, or brain chemistry, and I could see the connection between our minds and our biology. As a physician, I was also aware that you could give two patients with the same illness the same treatment and get different outcomes. I started using the phrase "body-mind," but it was not accepted then. My colleagues thought I'd gone off the deep end. If I'd stayed, I might have been fired. Also, I was stressed. I had 35 patients in the office and 20 in the hospital, five of them in the ICU. I didn't have time to sleep. I smoked. I was a mess. So one day I decided to leave.

How do you respond to critics of your New Age philosophy?
I used to get offended. I'd say the most innocuous thing, and people would call me "a fake" or "a fraud." But I'd also get validation and flattery. I realized that, no matter what, you get both kinds of responses, so you need to be immune to both. If you are convinced that what you're doing is valid, you just persist, relentlessly.

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THE AIR-KING

A tribute to the golden age of aviation in the 1930s, featuring a prominent minute scale for navigational time-readings.
It doesn't just tell time. It tells history.

ROLEX

OYSTER PERPETUAL AIR-KING