Harvard Business Review

Why Feedback Fails

Criticizing people doesn't help them excel. There's a better way.

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"As platforms change the nature of talent development, leaders will emerge with the skills to do the right thing, at the right time." PAGE 40

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DEPARTMENTS

EDITOR'S NOTE: In the process of editing "Calculating the Value of Impact Investing," by Chris Addy, Maya Chorengel, Mariah Collins, and Michael Etzel (January–February 2019), HBR omitted a paragraph provided by the authors noting that the methodology they described built on and complements prior work by many institutions, including most notably social return on investment (SROI) and a framework developed by the Impact Management Project, a collaborative involving foundations and major investment institutions. We regret the omission, and the paragraph has been reinstated in the digital version of the article.

Photograph by **CHAD KIRKLAND**

Profit and Purpose

Executive editor Ania Wieckowski and Adi Ignatius

FINANCIAL PERFORMANCE SHOULD no longer be the sole pursuit of the corporation. Companies are being pushed to consider the interests of all their stakeholders—including employees, customers, and the community—not just those of their shareholders. Of course, some leaders have long embraced the idea of doing well by doing good. But making that idea a reality has proved challenging.

Though rare, companies that have managed to create both financial and social value do exist: Patagonia and Grameen Bank are two that come quickly to mind. There's no magic to this feat, say Julie Battilana, Anne-Claire Pache, Metin Sengul, and Marissa Kimsey, who have been studying social businesses for more than a decade. In "The Dual-Purpose Playbook" (page 124) they argue that the organizations that pull this off build a commitment to creating both kinds of value into their core activities.

These businesses have mastered what the authors call *hybrid organizing*—an approach that involves setting and monitoring social and financial goals, structuring the organization to pursue both, hiring employees who can embrace them, and managing with both goals in mind. When the social and the financial come into conflict, managers must make difficult trade-offs that keep the business on the two tracks at once. This involves equal measures of creativity and discipline, aspiration and practicality—which are, after all, the ingredients of great leadership.

ADI IGNATIUS
Editor in chief

Andrew Nguyen

Contributors

Adam Brandenburger, a professor at NYU's Stern School of Business, has always sought ways to help people think differently. His work in game theory (with Harborne Stuart) redefined basic notions of value and added value, and his book *Co-opetition* (with Barry Nalebuff) used that framework to explore how businesses can grow the pie using complementary relationships. His article in this issue builds on recent work (with Jeff Lehman) on creative thinking—another effort to help people "change the game."

Kieran Setiya focuses on ethics and related questions about human agency and knowledge. Setiya spent much of his career writing academic books and essays, but lately he has turned to the social applications of philosophy. He teaches a course at MIT, where he is a professor of philosophy, on the ethics of climate change, and his 2017 book, *Midlife: A Philosophical Guide,* applies the principles of modern philosophy to the challenges of navigating a midlife crisis. His article in this issue offers guidance for coping with mid-career malaise. "In each case, philosophy can refine how we think and therefore how we act," he says.

Over 15 years of studying "social" businesses, **Julie Battilana** has noticed two shifts: The first is the mounting evidence that "our capitalist system is unsustainable due to environmental catastrophe, income inequality, and people's sense of being left behind." The second is that many Millennials are invested in building "an economic system in which businesses are accountable to people and the planet." In the article she coauthored for this issue, Battilana—a professor at Harvard Business School—outlines practical ways to address these challenges.

When **Safi Bahcall,** a physicist and biotech CEO, was invited to work with President Obama's council of science advisers in 2011, he was told the job was to prepare the next generation of the Vannevar Bush report: a vision to shape the coming 50 years of national research. Having never heard of Bush, he read quickly. The system Bush helped create at the outset of WWII, which influenced the course of the war, identified elements of structure that teams, companies, and nations can use to innovate faster and better. Those elements are the topic of his article in this issue and his forthcoming book, *Loonshots.*

Andrew Zuckerman's photographs often depict hyperrealistic subjects set against bright-white backgrounds. "I'm concerned with how subjects relate to their context, and what happens to them when they're removed from it," he says. He describes the work this way: "It's about looking at the essential qualities of something. It's about creating a connection with nature that reveals something about us." His nature photography is collected in three books titled *Creature, Bird,* and *Flower.*

Insights from Neuroscience

What the brain can teach us about leadership, management, marketing, and more.

SPECIAL ISSUE

Harvard Business Review Special Issues reflect the work of the world's leading scholars and practitioners on critical and fast-changing areas of interest to business readers. These collections include new work as well as articles drawn from the rich archives of *Harvard Business Review*.

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Idea Watch

New Research and Emerging Insights

A NOVEL WAY TO BOOST CLIENT SATISFACTION

Analyze e-mail behaviors and share best practices.

WHEN ATHLETES WANT to improve, they typically spend hours reviewing video of their performance. In the white-collar workplace, it's hard to get such vivid feedback. But in recent years researchers have learned to mine a unique set of data that serves as a slow-motion replay of how an organization and its people function: the company's e-mail, which shows

who talked with whom, why, how, and how often.

Academics call this kind of investigation *social network analysis.* It has largely focused on internal communications aimed at learning how colleagues can collaborate most effectively. A new study uses e-mail analysis for a different purpose: to examine how employees interact with clients. Organizations can learn what patterns and behaviors affect client satisfaction and use the results to coach employees on more-effective communications. The researchers call this work *virtual mirroring,* because it helps people reflect on their style and compare it with others'. "This is one of the highlights of 15 years of research in which we show people their e-mail networks, determine what variables drive performance, and then show how people can improve their collaboration," says Peter Gloor, the MIT research scientist who led the study.

The researchers identified 176 teams working with key client accounts at Genpact, a global professional services firm spun off from General Electric in 2005. Teams ranged in size from a few dozen people to several hundred. Twenty-six teams were designated as the experimental group, with the rest serving as a control; the two groups contained similar types of client companies (mostly from the *Fortune* 500) in a variety of industries. At four points during the study, researchers compiled and analyzed two months' worth of e-mail between employees and clients; over the course of two years, they retrieved

and examined more than 4.5 million messages in all. The periods during which e-mail was gathered coincided with the firm's semiannual customer satisfaction survey, which yielded a Net Promoter Score indicating how happy each client was with the service provided by its team.

Each month during the study, team leaders attended a virtual mirroring session lasting 30 minutes to an hour.

During it they were shown a scorecard containing key metrics from the e-mails. These tracked the directness of communication (meaning how frequently employees answered client questions on their own as opposed to how often they needed to loop in a supervisor), the simplicity of language in the subject line, the speed with which employees responded to clients' messages, and the extent

to which clients consistently dealt with a single employee rather than a rotating cast. The researchers hypothesized that teams with direct communication, simple language, fast response times, and consistent points of contact would receive higher Net Promoter Scores than their counterparts, and results showed that this was true. (A caveat: The researchers did not access the actual text of the e-mails; their semantic analysis was limited to the subject lines.)

The study's most important finding involved how the feedback from the virtual mirroring sessions led to positive changes in behavior. "Employees reduced the complexity of their language and made their communication with clients much simpler," says Andrea Fronzetti Colladon, a professor at the University of Perugia and a coauthor of the study. They also communicated more directly, responded more quickly, and tried to give clients a single, consistent point of contact. These changes had a significant effect: Over the course of the study, teams that participated in the e-mail analysis and mirroring sessions saw client satisfaction rise by 17% more than teams in the control group.

Although the results suggest that certain e-mail behaviors can improve client satisfaction, the researchers note that effective behaviors will vary according to context. "In postsales assistance [the context of the study], you want stable leaders, and you don't want too much creativity," Gloor says. "Clients are asking for an answer to a problem, and they almost always want an answer from the same person. But in a different context, such as new-product development, you'd need to have a more creative and more dynamic discussion, and you'd want to have people rotate more."

In other studies the researchers broadened their work on e-mail analysis. In one, they analyzed the e-mail, phone calls, and web conference calls of top-performing salespeople and found, among other things, that high performers were more likely than their lower-performing counterparts to turn on the video camera during web calls and that they engaged in more back-and-forth with clients during those calls. And in another study at Genpact, the researchers found that e-mail analysis could help them accurately predict (up to five months in advance) whether an employee would quit—in some cases, they say, identifying that likelihood before the employee had recognized that he or she might be leaving.

It's no surprise that the ways in which an employee communicates affect client satisfaction. Managers can benefit by regarding e-mail as a resource that leaves behind "digital breadcrumbs" that can be systematically analyzed. Like watching a video of your golf swing, sometimes looking in the mirror and studying your flaws provides valuable lessons in how to improve. ◎

HBR Reprint F1902A

ABOUT THE RESEARCH *"The Impact of Virtual Mirroring on Customer Satisfaction,"* by Peter Gloor et al. *(*Journal of Business Research, *2017)*

IN PRACTICE

"This Isn't About Putting People on the Spot"

Gianni Giacomelli leads innovation at Genpact, the digital transformation professional services firm where the study described in this article was conducted. He recently spoke with HBR about the research and the company's response. Edited excerpts follow.

Why study Genpact's use of e-mail? Our company is large and distributed—we have 80,000 employees across numerous time zones. It's very hard to do synchronous communications. That makes e-mail important. It's a representative sample of employees' interactions.

How did you share the monthly analysis with your employees? We have many groups of up to 500 employees each serving a single client. We took the analysis to two people in each group: the operational leader, who oversees the work, and the business leader, who oversees the P&L for the entire industry vertical. In the first few meetings we explained

the metrics—what we mean by plain language, speed of response, and a consistent point of contact. Then the leaders began receiving monthly report cards and bringing that information to their teams during huddles.

Were you worried that people would react defensively to metrics on how quickly they answer client e-mails? The data was available on an individual level, and we used that at the beginning to get a sense of where the numbers were coming from. But we quickly realized that this isn't about putting people on the spot. It's about telling people what we, as a group, did that month, and continually pointing to the three behaviors that are encouraged. Over time most of the virtual mirroring began to happen as a group.

Sometimes people use big words to try to sound smart. Were employees surprised that customers prefer plain language? They were. Our people are very well-educated, and they think they're doing a good job if they're using words that are not necessarily complicated but are very specific. The results basically said: Just speak plainly. Use language the other person won't need to decipher. The results show that you never know what is important for a given job until you establish causality. In this case most of the jobs are fairly transactional—the work needs to be disciplined like in a factory, with few surprises, so plain language makes sense. For digital innovation or transformation or creative work, the metrics would look very different, and more-varied language might work well.

What about areas other than customer satisfaction? You can use the analysis for many things. We used it to identify the behaviors that predict employee disengagement and attrition. The analysis can also help in designing the onboarding of certain groups of new employees, such as those in sales and transformation consulting. We found that during those employees' first six to nine months, the size, structure, and organic growth of their internal network is a good predictor of success. And we ultimately use it for coaching—to show people the behaviors that work well and how to develop their network.

Are you still analyzing e-mail? We don't use the tracking over long periods of time, but we still use techniques such as role-playing to teach people to adopt the desired behaviors. The importance of these tools is in identifying the metrics that large, distributed groups of people need to drive in order to achieve superior impact. Over time it's not about the scorecards themselves—it's about understanding what really boosts customer satisfaction. ◉

AVERAGE COST

QUANTITY
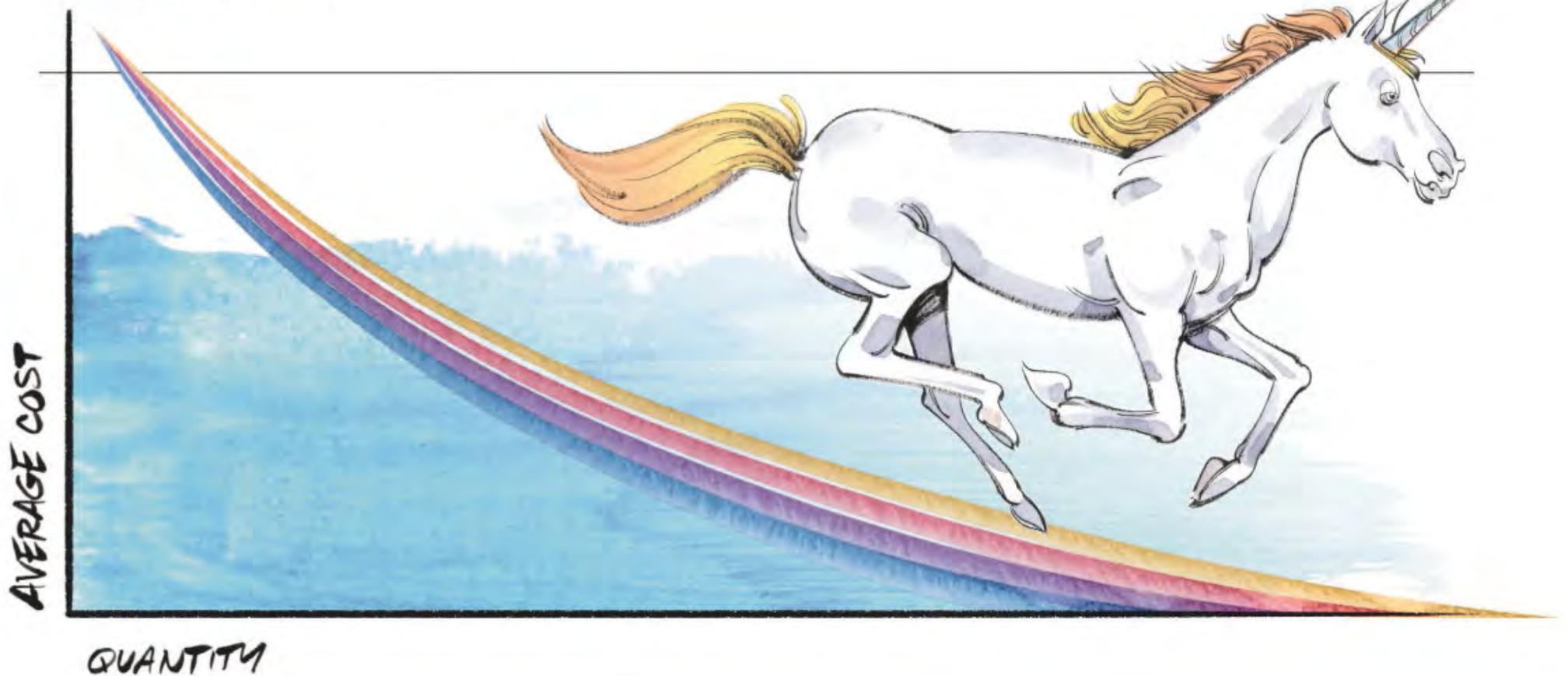
ACCOUNTING

Efficiencies of Scale May Be a Myth

Every first-year accounting student learns this lesson: As a firm's sales grow, its costs per unit should decrease, because fixed costs and overhead are spread across a larger number of units—a phenomenon known as efficiencies of scale. Countless business plans and investment proposals hinge on this assumption and the corollary that profit margins will grow as sales increase. But are these assumptions an accounting fiction?

A new study suggests that's the case. Researchers examined four large data sets—two involving U.S. companies, one involving European firms, and one that included global companies, amounting to thousands of firms in all—to learn how costs-to-sales ratios and profit margins changed as firms grew. They found that costs and profits rose in close proportion to sales increases, without the marginal improvement the accounting theories predict. This happened across all industry sectors and even among young firms experiencing very rapid growth. The researchers posit a number of explanations, including agency costs, resource constraints, and increased competition as markets mature. They write, "Projections that routinely anticipate declining average costs are likely optimistic. Any scale efficiencies projected, especially if they are based on short-run marginal costs, deserve careful scrutiny to confirm that they are reasonable and supported by experience."

ABOUT THE RESEARCH *"The Long-Run Average Cost Puzzle," by Aytekin Ertan, Stefan Lewellen, and Jacob K. Thomas (working paper)*

INNOVATION

The Curiosity Gap

Organizations with curious employees are known to be more innovative than others—but just how open are companies to curiosity? A survey of 23,000 Americans shows a significant gap between the experiences of high-ranking and of lower-level employees.

■ C-level executives and presidents
□ Other employees

Share who say that in their company:

	0%	25	50	75

No barriers exist to my being curious.

Curiosity is encouraged "a great deal."

Being curious leads to earning more money.

You don't get real answers when you ask questions.
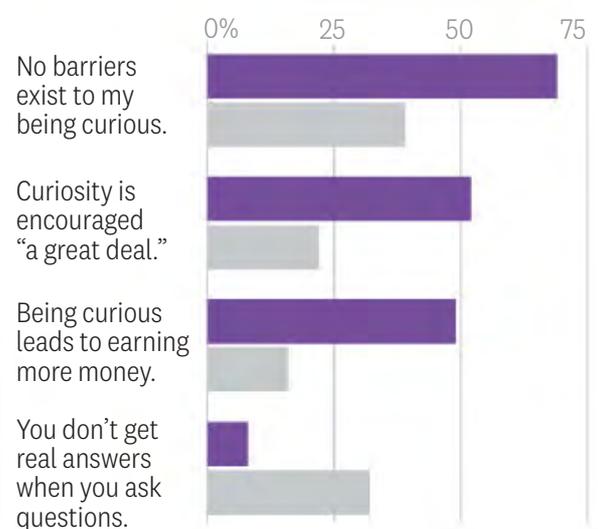
Source: SurveyMonkey

GLOBAL BUSINESS

The U.S. Monopoly on Venture Capital Investments Is Over

In the mid-1990s the United States received 95% of the world's investments in start-ups. Today the figure is just 50%, with Beijing, Shanghai, London, Hangzhou, and Bangalore among the top 10 locations for VC investment.

Share of investments going to U.S. firms
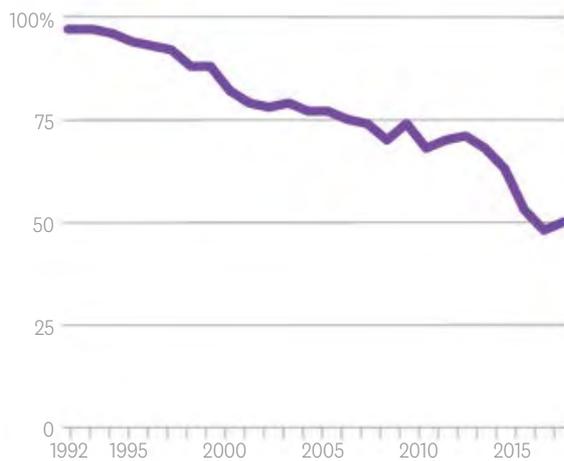
Source: Analysis of PitchBook and VentureSource data by Richard Florida and Ian Hathaway

TECHNOLOGY

People Trust the Judgment of Algorithms

Even as companies increasingly look to big data to inform judgments, they often assume that individuals won't do so—that people are wary of algorithms and want machine-generated advice to have a human touch. Think of the virtual assistants Siri and Alexa and the degree to which they have been anthropomorphized, to name just two examples. New research questions the received wisdom that people distrust algorithms—and finds that it is largely mistaken.

In a series of six studies, 1,260 online participants were asked to make predictions on topics ranging from hit song rankings to online daters' compatibility. They then received advice, couched as coming from either a person or an algorithm, and given the chance to revise their predictions. They relied more heavily on the advice when they believed it was generated by an algorithm. In a subsequent study in which national security professionals and nonexperts made predictions about geopolitical and business events, the pattern held only for the nonexperts. The professionals discounted advice no matter what the stated source—and, subsequent analysis showed, were less accurate as a result. A final study found that when people had to choose between another person's judgment and that of an algorithm, they preferred the algorithm—but if the choice was between their own judgment and an algorithm's, their reliance on the algorithm declined.

"Our studies suggest that people are often comfortable accepting guidance from algorithms, and sometimes even trust them more than other people," the researchers write. "It may not be necessary to invest in emphasizing the human element of [the] process....Maybe companies that present themselves as primarily driven by algorithms, like Netflix and Pandora, have the right idea."

ABOUT THE RESEARCH *"Algorithm Appreciation: People Prefer Algorithmic to Human Judgment," by Jennifer M. Logg, Julia A. Minson, and Don A. Moore* (Organizational Behavior and Human Decision Processes, *forthcoming*)
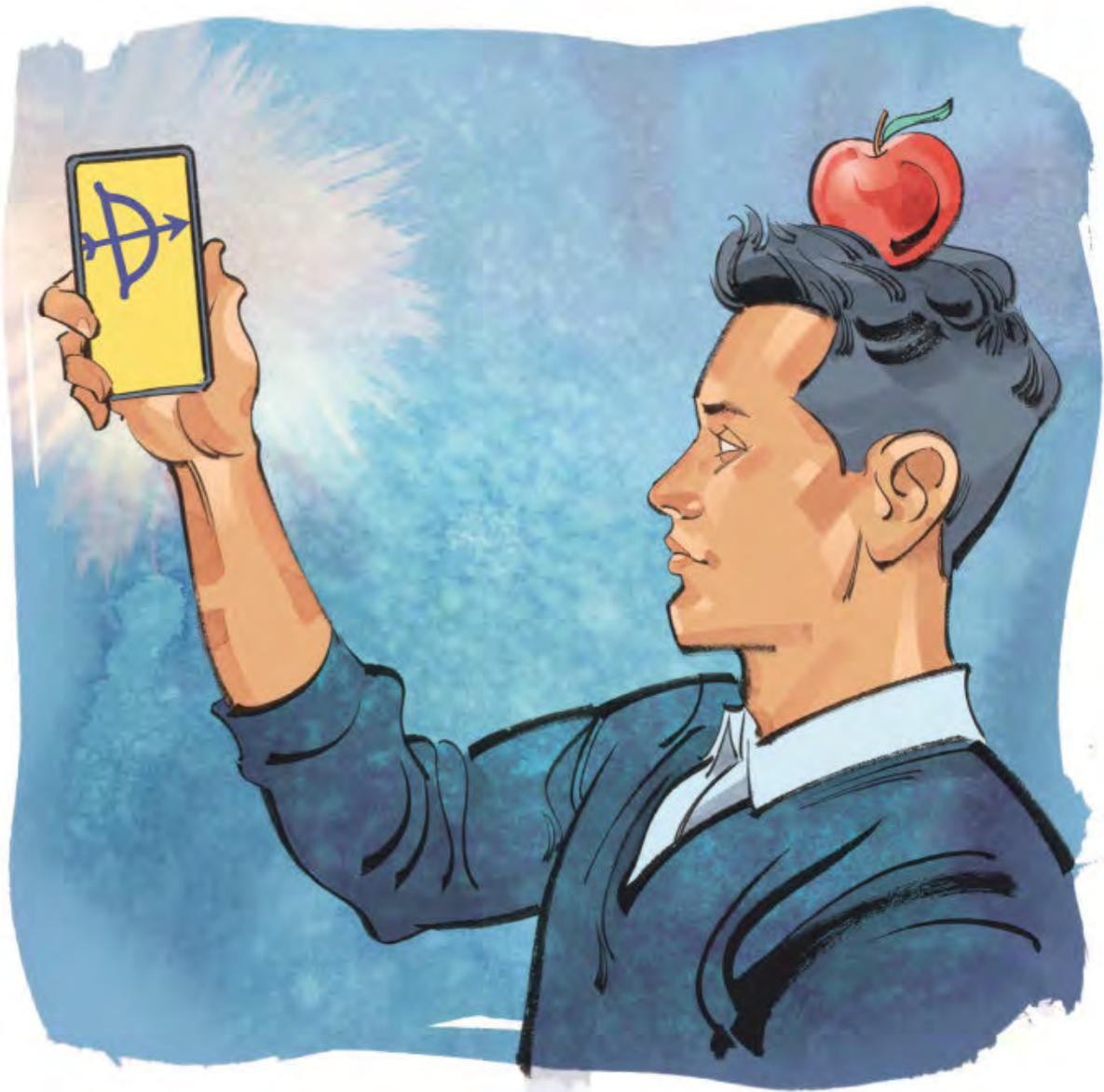
THANK THE ROBOTS

By 2020 artificial intelligence will add to, not subtract from, the job market: It is projected to create 2.3 million jobs globally while eliminating 1.8 million.

"Predicts 2018: AI and the Future of Work," by Gartner

LEADERSHIP

Followers Make Good Leaders

It's commonly prescribed advice: If you want to be a leader, you should act like one—exhibit dominance and demonstrate that you stand out from your peers. But new research suggests that while such behavior will often catapult you to a leadership position, it might also compromise your ability to lead.

Researchers tracked 218 Royal Marine recruits engaged in a training program that ended with the recruits and their commanders voting on the recruit with the greatest leadership ability. Throughout the program the recruits periodically rated their own identification with leader and follower roles; their leadership and followership were also assessed by their commanders, and their leadership was assessed by their peers. The recruits who saw themselves as leaders were also seen

as such by their commanders—but they didn't gain the confidence of their fellow recruits, who voted for individuals who saw themselves (and were seen by their commanders) as followers. Because leaders and followers are members of the same group, the researchers say, successful leaders need to be perceived as "one of us," not as "one of them," and setting oneself apart may squelch others' willingness to follow.

Noting that the commanders—unlike the recruits themselves—failed to recognize the leadership potential of those they perceived as followers, the researchers write: "This is a recipe for establishing ineffective leadership structures and increasing team dysfunction. Organizations that utilize democratic processes for the selection of formal leaders...may well benefit from doing so."

ABOUT THE RESEARCH *"I Follow, Therefore I Lead: A Longitudinal Study of Leader and Follower Identity and Leadership in the Marines," by Kim Peters and S. Alexander Haslam (*British Journal of Psychology, *2018)*

PRICING

Stacked Discounts Hurt Profitability

Retailers sometimes offer promotions in which they "stack" discounts: 20% off, plus an extra 25% off. Previous research has shown that this can boost revenue, because the sequential math often confuses shoppers and causes them to overestimate the total discount. A new study offers a more holistic look at the tactic, examining whether stacking discounts increases returns and drives up retailers' overall costs.

In an experiment, researchers asked people to imagine they were buying a $1,000 necklace. Some subjects were offered a stacked discount, while others were offered a single discount. The subjects were asked to estimate the net price and rate how likely they were to make a purchase. They were then told to imagine they had bought the necklace; they were shown the receipt (with the discount clearly expressed in dollars) and asked about their likelihood of returning the item. Participants who were offered the stacked discount were more likely than those who weren't to buy the necklace—and they were also more likely to return it, a result the researchers linked to participants' subsequent realization that they had miscalculated the net price.

In a follow-up study using data from a national jewelry retailer, researchers studied 249 promotion events in which both stacked and single discounts were offered on more than 3 million items. They found that stacked discounts
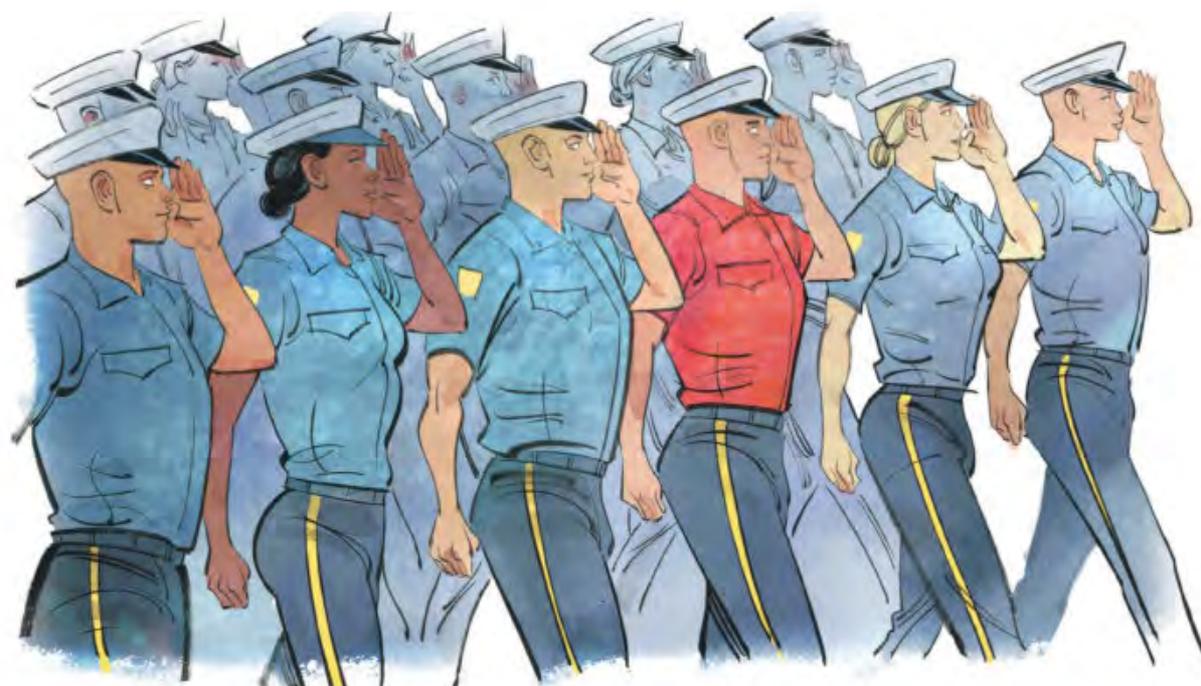
increased sales by 4.9% relative to single discounts—but items sold in that way were 5% more likely to be returned. The researchers observed no such effect in online sales, presumably because shoppers can see each item's final price before completing their transaction.

Retailers need to recognize that consumer errors in calculating stacked discounts often lead to excess returns, the researchers say, adding that the risk of miscalculation is especially high during times of large discounts (such as the holidays), in busy stores, and among poorly educated shoppers. "Managers should carefully assess their cost structures and consumer characteristics before implementing stacked discounts," they write.

ABOUT THE RESEARCH *"On the Profitability of Stacked Discounts: Identifying Revenue and Cost Effects of Discount Framing," by Necati Ertekin, Jeffrey D. Shulman, and Haipeng (Allan) Chen (*Marketing Science, *forthcoming)*

TEAMS

Intermittent Collaboration Helps Performance

Research has shown both benefits and drawbacks to having people interact to solve problems. Groups produce higher quality solutions, on average, because members learn from one another, but individuals produce more-novel and -imaginative solutions, because they aren't constrained by the group's

influence. New research examines what happens when group versus individual performance is affected by an additional variable: time.

In a series of experiments, people were asked to solve several rounds of complex map-based optimization problems similar to those faced by a traveling salesperson who must find the most efficient route for calling on customers in various cities. One-third of the participants worked on their own. One-third worked in groups of three, with members having constant access to their teammates' solutions. One-third worked individually for the most part but came together intermittently in groups of three to compare answers before returning to solo work. The intermittent collaborators got the best results, both individually and as

a group. In a follow-up experiment in which participants could refer to their previous answers, the benefits of intermittent collaboration lessened, presumably because having access to previous solutions inhibited the exploration that typically happens during solo work. The researchers conclude, "By shaping subjects' behavior to take advantage of both independent exploration and social learning, intermittent interaction caused subjects to perform better." However, they caution that this may not apply to every type of task.

ABOUT THE RESEARCH *"How Intermittent Breaks in Interaction Improve Collective Intelligence," by Ethan Bernstein, Jesse Shore, and David Lazer (*Proceedings of the National Academy of Sciences, *2018)*

RETAIL

The Downside of Attentive Service

In theory, energetic customer service is a good thing: a mark of a luxury hotel or an upscale restaurant. But a new study highlights a drawback to service that goes the extra mile—and finds that perceptions of what is "too much" vary from culture to culture.

The researchers interviewed consumers in China and North America in a variety of service contexts: hairdressing, telecommunications, and computer repair. From this work they constructed a definition of what they call high service attentiveness: service that is perceived to be "excessive in frequency, overly intensive in warmth, or providing unsolicited care and information." They noted that just one of these factors can put customers off, often leading them to suspect that the provider has an ulterior motive—is angling for a larger tip, say, or trying to upsell a product or service.

In a subsequent experiment, Chinese and U.S. participants read a scenario in which a hair stylist was either matter-of-fact or especially solicitous; some were told that the stylist received commissions, others that he worked purely on a salaried basis. After reading the script, participants rated their likelihood of obtaining a membership card to the salon and described how they felt about the stylist, his services, and his motives. U.S. participants reacted negatively to the highly attentive stylist only when they believed he was paid on

SALES

Get Ahead of the Next Recession

A study of 3,500 companies found that those that took companywide measures to prepare for a downturn saw earnings before interest and taxes (EBIT) grow sharply during and after the event, unlike companies that didn't prepare. In sales, those measures included tactics like ditching marginal accounts, bolstering low-cost channels for small clients, automating account management, streamlining back-office functions, and using data to set prices.

Global financial crisis　　Double-dip recession

EBIT indexed to 2003 (aggregated average)

Prepared companies

Unprepared companies
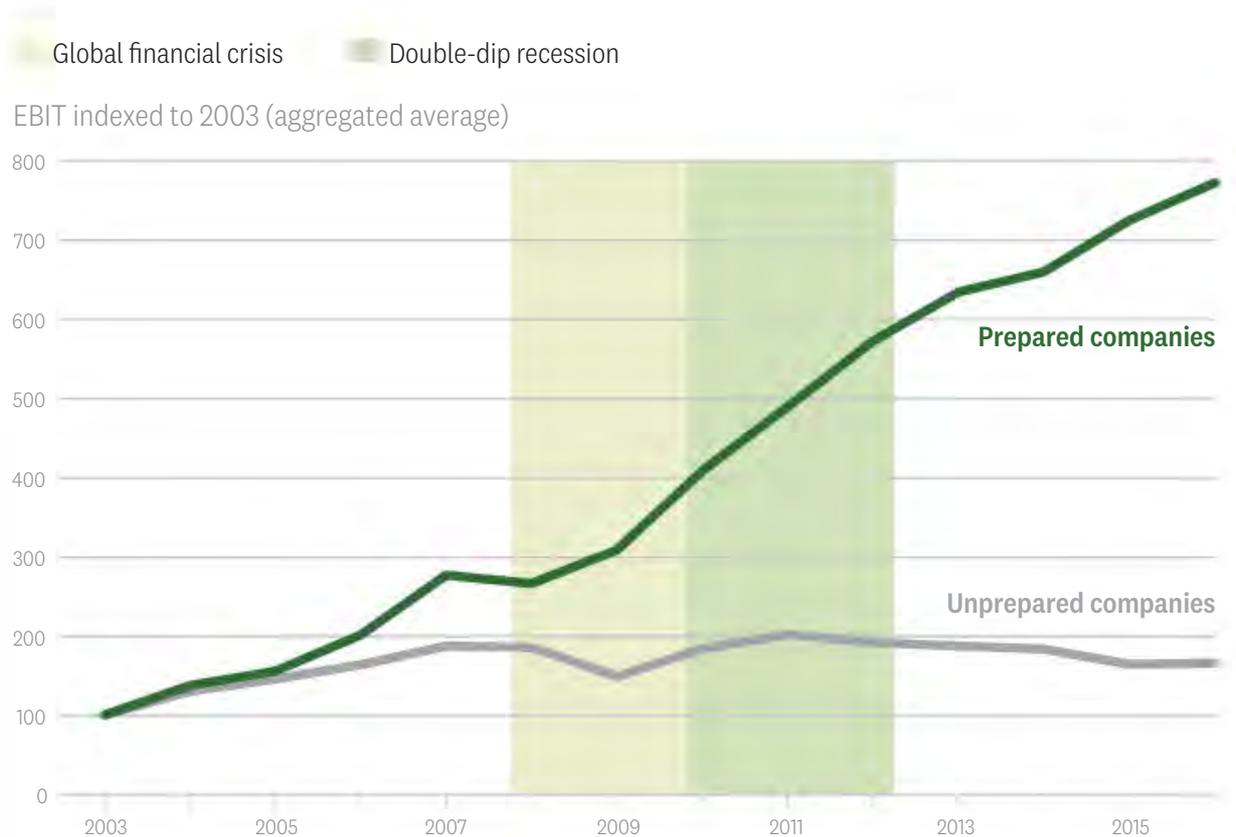
Note: A double-dip recession occurs when GDP becomes negative after at least one quarter of growth. EBIT is not adjusted for inflation.
Source: Bain analysis of S&P Capital IQ data.

commission, but their Chinese counterparts reacted negatively and voiced suspicions regardless of the compensation system—and negative feelings about the stylist affected both groups' interest in a membership card.

"Our findings provide useful guidance to international service managers," the researchers write. "High service attentiveness does not necessarily result in increased customer satisfaction or patronage intention,

[and] service employees need to be more tactful and sensitive to consumer needs and refrain from being overly warm or effusive, particularly in East Asian markets." ⊚

ABOUT THE RESEARCH *"Consumer Responses to High Service Attentiveness: A Cross-Cultural Examination,"* by Maggie Wenjing Liu, Lijun Zhang, and Hean Tat Keh (Journal of International Marketing, *forthcoming)*

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

Harvard Business Review
March–April 2019 **29**

Russell Johnson of Michigan State University and his coresearchers asked managers to track the help they gave colleagues over 10 days and how recipients responded. The team found that when people lent a hand without being asked, they were less likely to be shown gratitude than when they helped upon request. Study participants also felt less sociable and engaged at work a day after they'd given proactive assistance. **The conclusion:**

You Shouldn't Volunteer to Help Your Coworkers

Professor Johnson, DEFEND YOUR RESEARCH

Johnson: Our findings do suggest that we all need to be cautious about offering unsolicited help. We're often told that it's good to be proactively helpful, especially with teammates. But it's important to recognize that the time and effort you put into that assistance—and take away from your own work—may not be appreciated. More often than not, according to our study, the recipient won't show gratitude, and that means you won't reap the psychological benefits of helping. Even 24 hours later, you'll feel less relationship-oriented, less cooperative, and less energized about work.

HBR: But if you see someone struggling, shouldn't you step in anyway? And not worry whether everyone will feel warm and fuzzy about it afterward? My coauthors—Hun Whee Lee, Jacob Bradburn, and Chu-Hsiang Chang of Michigan State, and Szu-Han Lin at UMass Amherst—and I would advise you to think twice. First, as an outside observer, you might not fully understand the person's problem.

Your judgment might be clouded by biases such as projection or selective perception. You'll probably have to use a lot of cognitive resources to figure out what's really going on, with no guarantee of giving your colleague the help that's actually needed. Second, maybe the person's preference was to solve the problem on his or her own and learn from the experience. If you swoop in without being asked, you're more likely to threaten your coworker's sense of autonomy and mastery at work and diminish his or her self-esteem. In two follow-up surveys of about 500 full-time employees in North America, we found evidence for both those phenomena. Respondents who recalled times when they'd proactively helped coworkers reported having less clarity on the issues at hand than those describing instances when they'd reactively helped. And people who told us about being given help were more likely to feel threatened if they hadn't asked for it. In those cases, the help was also less effective. So it's no wonder the helpers weren't thanked.

Can you work around this by getting the person who needs help to ask you for it? It might be better to approach with a question—"Anything I can do to help?"—and allow your colleague to say yes or no. I think tone and body language are probably important, too. There's a difference between offering help in a smarmy, arrogant way and doing it with kindness and humility. But our research didn't get into those nuances.

Does hierarchy matter? Aren't bosses supposed to help their employees and vice versa? It might. Our studies focused on peer-to-peer interactions. We asked our first group—54 people enrolled in a part-time executive MBA course, who were also employed full-time in a variety of industries—to report back to us via online surveys about activity on 10 consecutive workdays, and they gave us information on 232 incidents

Illustration by **IRINA KRUGLOVA**

in which they'd helped colleagues. In the follow-up studies, conducted via Mechanical Turk, we asked similar questions about giving and receiving assistance from coworkers. Maybe our findings would have been different if we'd considered the boss-employee dynamic. But I don't know. When your supervisor gives you proactive help, is it useful or micromanaging? If subordinates step in without being asked, are they doing their jobs or undermining the manager's power and status? Or just brownnosing?

Are there any implications for people in client-facing roles? Should we now instruct salespeople to be reactive rather than proactive? The help we studied—between coworkers—was discretionary. Help given to a client is a little different because it's part of your formal duties, so proactivity might be expected, and regardless of the kind of help, you're probably less likely to be thanked.

Were there any differences between men and women? We didn't find any. Of course, there's a large body of existing research showing that women tend to be more communal and collaborative in the workplace and can be penalized if they aren't, since it runs counter to what's expected of them. But when it comes to the impact of proactive versus reactive helping, there doesn't seem to be a gender component.

You studied one-on-one help. What about volunteering in a group setting? Is that better or worse? I suspect that an unprompted public offer to help a coworker would magnify the problem. The person might be embarrassed and feel an even greater threat to his or her ego. On the other hand, if you see a problem that the group is collectively facing, and you raise your hand to solve it, that might not be a bad thing. But motive matters, too, whether your target is an individual or the team. If

you're helping not for altruistic reasons but because you know your boss is watching and want to make yourself look good, research shows, people are likely to react negatively. That said, when we drilled down into the hundreds of interactions we studied to analyze helper motivation—that is, whether people were driven by a concern for others or a desire to feel better about themselves— we found that it had no effect on the kind of help they gave or the expressions of gratitude they received.

What about corporate culture? Can it play a role in legitimizing proactive helping? We didn't ask our study participants about that aspect of their workplaces. But it would be interesting to examine whether the findings would be different in cooperative versus competitive cultures, or hierarchical versus flat organizations. One practical recommendation we'd make to managers in any setting is this: Encourage people to focus on their own work. Explain that it's OK to take a sit-back-and-wait approach to helping. But also make sure to create an environment in which everyone who needs help feels comfortable asking for it and anyone able to give help is both approachable and willing to jump in as soon as a request is made.

Has this study prompted you to change the way you give and receive help? As a mentor to PhD students, I have an open-door policy and try to always be available to them. But they must ask for help. I don't go around looking for fires to put out. Especially in a learning context like the university, I may notice students struggling, but I know they usually want to figure the solution out on their own. Also, when someone helps me or I see one student helping another, I go out of my way to acknowledge and show gratitude to the helper. ⊜

HOW I DID IT TRAEGER'S CEO ON CLEANING UP A TOXIC CULTURE

by Jeremy Andrus

One morning in October of 2014 I pulled into the parking lot at my office to find it surrounded by fire trucks. On the previous visit I'd made a big announcement: Traeger, the Oregon-based outdoor cooking company where I had recently become CEO, would be closing its warehouse and trucking operations and outsourcing them to UPS. The move made strategic sense, and we had offered generous severance and outplacement assistance to the several dozen employees affected. Nonetheless, the news hadn't gone over well. When I got out of the car, I learned that one of our big-rig trucks was on fire. We didn't know who was responsible, but it was obviously arson.

I gathered my executive team inside to talk about how to handle the incident. Someone's online news feed was reporting on an office in Alabama where just that morning a disgruntled employee had shot and killed a couple of coworkers. It made us reflect on how much worse things could get at Traeger. An hour or so later a longtime employee stuck his head in the door and said, "Rumor has it something big is going down today." I knew I had to stand in front of the company to address the team, and what might come next made me nervous. It was the first time I'd ever felt physically unsafe at work.

There is no case study for what to do when employees start burning your assets, or a potentially mutinous mob begins to form. Sadly, these incidents were just extreme examples of a larger problem: Our company had developed a toxic culture characterized by lack of trust, negative attitudes, and a stubborn refusal to collaborate. As a new CEO I had spent months trying to figure out how to solve the problem. The day of the truck fire represented a turning point: I knew we needed to dismantle the existing corporate culture and build a new one from scratch.

THE LURE OF ENTREPRENEURSHIP

My route to becoming the CEO of Traeger was circuitous, to say the least. Like a lot of other people, I had a hard time when I was in my twenties figuring out what I wanted to do. After college I spent three years as a management consultant, and although I learned a lot, I didn't love it. Then I spent six months day-trading stocks, which was the most stressful and exhilarating job I've ever done. I helped a company build hotels. I enrolled at Harvard Business School, but when I graduated, in 2002, in the aftermath of the dot-com recession, the only companies interested in me were management consultancies and real estate development firms, because that's the experience I had on my résumé. I knew I wanted to do something different.

After a few months of sleeping in my parents' basement, I moved to Dallas and became a partner in a small frozen-drink company. It was the first time in my career that everything came together. One minute I'd be driving a forklift in the warehouse; the next I'd be negotiating with a banker; the next I'd be trying to make a sale to a distributor. I loved being able to touch every part of the business, and the experience convinced me that I'd be happiest as an entrepreneur.

A few years later someone introduced me to Rick Alden, who'd founded a company called Skullcandy. It was still tiny—only $500,000 in sales. (It was still putting speakers into snowboarding helmets and hadn't yet moved into headphones.) In 2005 I became Skullcandy's VP of operations. We grew so fast that I always felt a step behind, but I was learning a ton. Rick struggled to raise funds from outside investors, so we built the brand on very little money. I ended up becoming CEO, staying for eight years, growing the business to $300 million in revenue, and taking it public. I eventually learned that I didn't particularly like running a publicly traded company. We were dealing with a lot of short sellers, and in retrospect, we were too small to have gone public. In early 2013 I left and joined a private equity firm to look for a smaller company I could buy and run myself.

SOME MAGIC IN THE BRAND

I looked at 40 or 50 deals and spent serious time on about 10 of them. I was most interested in consumer-facing brands. My dad worked in brand management while I was growing up,

and I've always thought of myself as a consumer products guy. I enjoy figuring out how consumers think and building a brand and a product to address their needs. One target was an all-natural candymaker. I came close to buying a high-end blender company. In every case I focused on whether I thought I could significantly grow the business.

Traeger first came across my desk in the spring of 2013, very early in my search. It was 26 years old and had created and patented something called a wood pellet grill—but I'd never heard of the company or the category. Its origins lie in the 1970s oil crisis, when people began looking at alternatives to oil heat. Wood pellet stoves became popular for home heating, and in the early 1980s Joe Traeger, who ran an Oregon heating company, began experimenting with using the same technology—whereby an electric motor spins an auger to feed wood pellets into a burn chamber—for an outdoor grill. Because they use thermostats to control the heat, pellet grills are especially good at smoking meat at steady temperatures. I had a 30-minute call with the company and decided the opportunity wasn't for me. Backyard grills didn't seem like a very interesting industry—it's a highly commoditized space, and I didn't see much competitive advantage in bending and welding metal. After the call ended, I didn't give it another thought.

A few months later the private equity firm that had brought the company to my attention called again. It had since bought a stake in Traeger and partnered with the existing CEO. That hadn't worked out, and the PE firm was looking for someone new to lead the company. By then I'd been searching for a buyout target for 10 months and was getting impatient, so I listened more carefully. The firm had done more research on Traeger; it had new data on the company's Net Promoter Scores, which were off the charts. It turns out that people who buy a Traeger grill tend to talk it up to everyone they know, persuading friends to buy one too. There seemed to be some magic in the brand that the current owners hadn't been able to turn into scalable growth. That piqued my interest.

We created a structure in which I would become a minority shareholder and the CEO. I went out to Oregon to visit the headquarters—but as I began to learn more about the culture there, I wondered if I'd made a mistake by ever getting involved.

A BRUISE ON MY CHEST

During my first visit I focused on two things: the potential to grow sales, and the quality of the existing management team. I saw a lot of room for improvement. Until 2010 the company had been manufacturing the grills itself, which didn't make a lot of strategic sense, but recently it had begun outsourcing manufacturing to China. In 2013 it was still operating warehouses and doing shipping and fulfillment, even though most competitors outsource that as well. It even had its own trucks and drivers on the payroll. About 240 people worked there—120 in the Oregon headquarters, 30 in a sales office in Utah, and 90 commissioned salespeople around the country. I lived near the Utah office with my family, so I began traveling back and forth between the Utah office and Oregon headquarters.

Pretty quickly I began to sense a cultural problem. The PE firm and I each held a minority stake; the majority owner was a serial entrepreneur who lived in Florida. He'd owned the business for eight years, and I was the eighth senior executive in that time; seven had exited. Later on I learned that employees called me Ocho (Spanish for "eight") behind my back, and they didn't expect me to last long. Their behavior reflected that. When I asked for data, they would ignore me. Once, when I was visiting headquarters, I asked the CFO if he could meet with me. Even though I was his boss, he said he couldn't find any time in his schedule. (He eventually found 30 minutes for me on that trip.) I'd ask people to work together on a project, and they'd simply refuse.

Although the majority owner had no operating role, he was talking to people at all levels of the company, multiple times a day, so employees acted as if he were in charge. The owner had created a culture of fear: Everyone was afraid of him, and he liked it that way. I recently reread the e-mails I exchanged with him during my first 90 days, and I'm proud of how measured and restrained I was. He was aggressive and abusive, and that style rubbed off on other people in the company.

I needed to bring in a better management team, so I hired a few executives I'd been close to at Skullcandy. That inadvertently made the cultural problems worse. It became an us-versus-them situation, with my

new team and me on one side, and the majority owner and long-term employees on the other.

The first step in trying to solve the cultural problem was to eliminate the majority owner. So on June 20, 2014, about five months after I'd come on board, the PE firm and I bought him out. It was an important moment—one we celebrate as a company holiday every year. We call it Traeger Independence Day.

Once we'd solved the ownership problem, we began to recognize other issues. When I first got involved with Traeger, it was a $70 million business—with amazingly unsophisticated controls and processes. Our warehouses were outdated and undersized; they couldn't handle our existing volume, let alone the growth we wanted to create. As we analyzed the financials, we realized we had a big issue with channel management. We sold our products online direct to consumers, but we also sold them through retailers such as Ace Hardware and big-box home improvement chains. It turned out that most of our direct-to-consumer sales were at deeply discounted prices—often less than what our retail partners paid us for the products. They were understandably upset by that, since we were persuading them to stock our grills and then undercutting them on pricing. The first time I went to a trade show, I came home with a bruise on my chest: Retail customer after retail customer had poked me hard for underselling them and providing horrendous service.

Back at headquarters I spent a lot of time meeting with the top 30

In tandem with its culture shift, Traeger has revitalized its marketing—building a community of fans and influencers on social media. Above, images from its Instagram feed.

or 40 people in the company, trying to get a sense of their willingness to change. We did a cultural survey to gather quantitative data and allow for anonymous feedback. We created a new mission and five values that would drive Traeger, but as we began communicating them, nothing seemed to happen. Many employees had been working there for years (some were even second generation), and they had little incentive to do things differently. The fact that I spent 75% of my time away from headquarters didn't help; as soon as I left, people could go back to operating the way they wanted. For a while I thought about moving my family to Oregon, but I wasn't sure that would fix the situation.

A CULTURE FROM SCRATCH

In the days after the truck fire, I resolved that the only way to deal with the toxic culture was to reboot. We decided to move the headquarters from Oregon to Utah. Most of the new executives and I lived in Utah, and with my network and reputation there, I knew I could build a strong team. In leaving Oregon, we'd leave behind the employees who were blocking our efforts to create a more positive and collaborative culture at Traeger.

We worked on a plan in secret for about 45 days before we announced it to everyone. It was a costly move: We paid severance to the people we let go, and we paid retention bonuses to key people to stick around in Oregon

long enough for us to set up the new headquarters. Although we were happy to be able to rebuild the culture completely, we worried a lot about the loss of institutional memory. Businesses this size tend to operate on tribal knowledge: Many things aren't written down, and practices are carried around in people's heads. It's hard to transfer that knowledge—especially when people are upset about losing their jobs.

Part of me regretted having to make such a dramatic move. But the more I reflected on it, the more I recognized that the decision resulted from the near-impossibility of transforming a legacy culture in which negative attitudes were so deeply ingrained. One of the advantages of starting a company from scratch is that you can build the culture from scratch too. Even though this company had been around for three decades, by relocating to Utah we'd be doing a complete reset.

We spent a lot of time deciding whom to invite to move to Utah. By that point, after we'd closed the warehouse and trucking operations, we had about 90 employees in Oregon. We assessed each one on competency and cultural fit. We graded people as positive cultural leaders, neutral, or cultural detractors. If people were cultural detractors (and many were), it didn't matter how competent they were—we didn't want them. You'd think the detractors would be easy to identify, but that wasn't always true. I remember one guy who worked in finance. I saw him as positive and upbeat, but when he left the company and did an exit interview with an external HR firm, I asked to see

the transcript. I was shocked by how mean-spirited and negative he was.

If someone was a cultural neutral and highly skilled in a job that would be hard to fill, we invited him or her to move. Only a couple were cultural leaders, and we invited them too. Among the 90 people were perhaps 12 or 15 we hoped would come to Utah; of those, five or six actually made the move. In general, the people we wanted had worked at the company for only a few years. They were ambitious to develop their skills, hungry to be promoted, and capable of moving between roles easily. The longer-tenured employees weren't adaptable and had too thoroughly assimilated to the negative culture. We thought about this in terms of a quarantine: We needed to be certain we didn't bring anyone who could infect the new culture we were trying to create.

A SPACE TRUE TO THE BRAND

The Utah headquarters officially opened in September of 2015, and we said good-bye to the last employee in Oregon in early 2016. We've hired lots of people since we moved—we're now at 450 employees globally—and I spend time with every candidate before he or she gets a job offer. I don't focus on their résumés. I want to understand how they think about risk taking and what skills they want to develop. I try to ensure that we apply a tight cultural filter to anyone we hire. We want to find people who are already living by our values.

Our physical offices play an important part in the new culture. We worked with architects to create an environment that feels true to our brand. It's

an energetic, outdoorsy space, with furniture made from reclaimed wood. The conference rooms are named for aspects of Traeger's past. (One is called the Abbey, because Traeger was originally launched on land where a monastery once stood.)

There are many beautiful places to cook and to sit and eat, since we see our brand as focusing on cooking and food, not on the metal or mechanics of the grill. Every Monday morning we cook breakfast for the entire company, and we cook lunch together Tuesday through Friday. Preparing food for and with colleagues is a way of showing we care about one another. The resources we've put into the office design communicate that as well.

Since I got involved with Traeger, we've done a lot more than try to transform the culture—we've overhauled our strategy, our marketing, and our product line. We've built a community of fans and influencers on social media and in real life. I'm convinced that the cultural shift we've achieved is an important driver of our results, which have been significant. In just five years we've grown sales from $70 million to nearly $400 million. The change isn't apparent only in our financial statements and in the mood around headquarters—our retailing partners see evidence of it too. That's important, because they play a vital role in helping us educate consumers on the advantages of pellet grills over gas or charcoal. It all stems from the research that first got me interested in this company: Once people try a pellet grill, they never go back. ◉

Spotlight
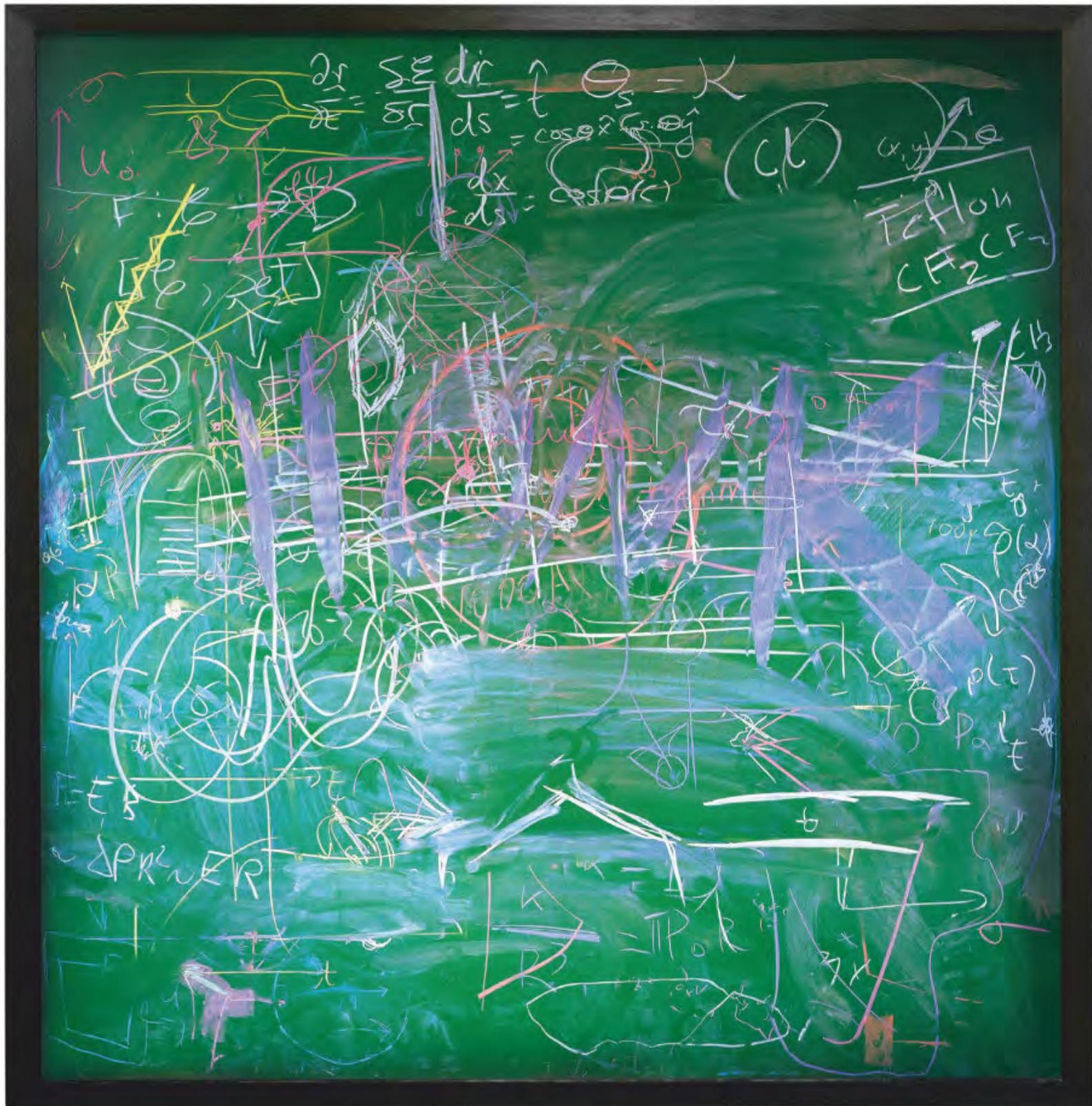
Educating the Next Generation *of* Leaders

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The Future *of* Leadership Development

Gaps in traditional executive education are creating room for approaches that are more tailored and democratic.
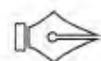
Mihnea Moldoveanu
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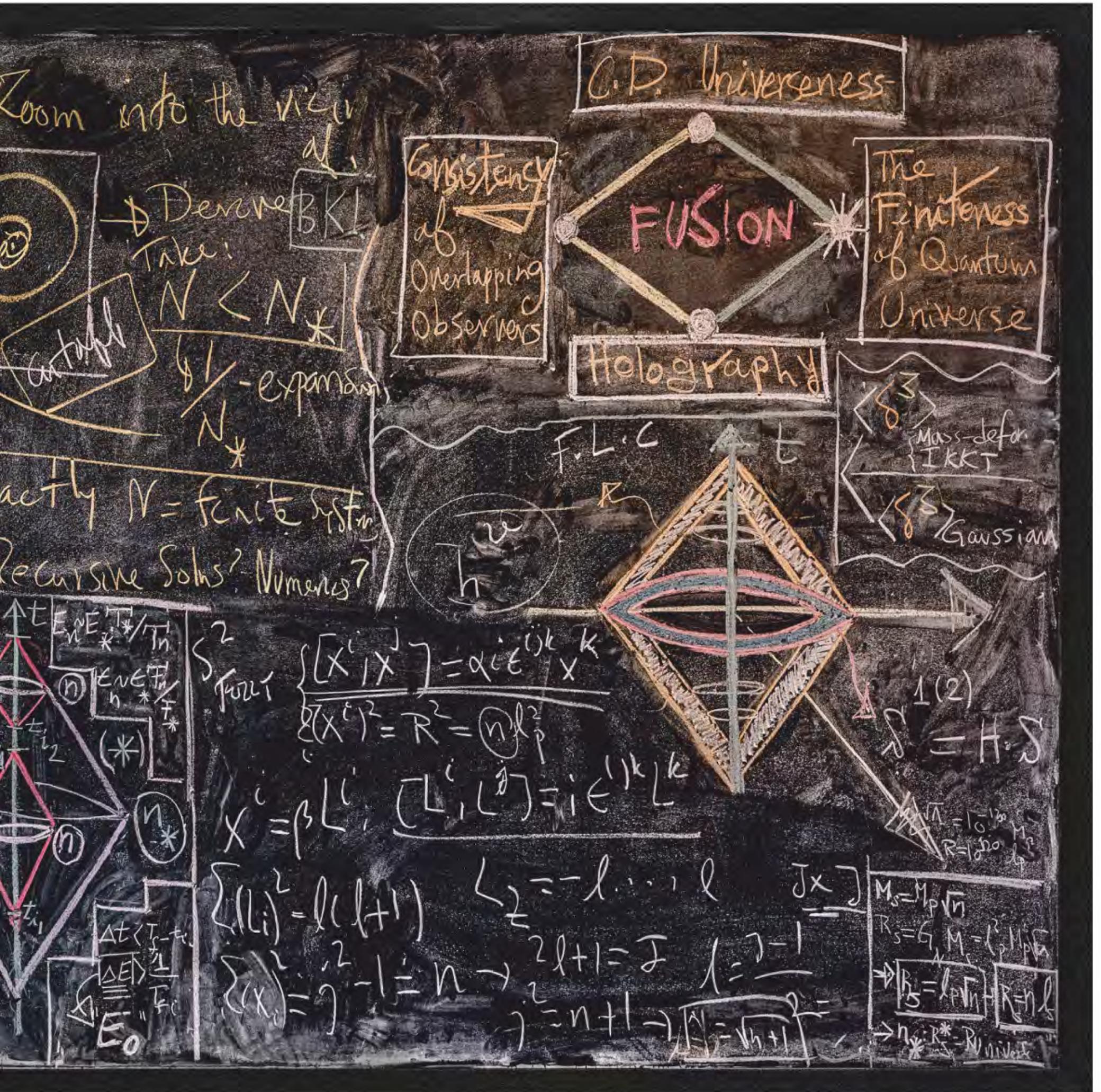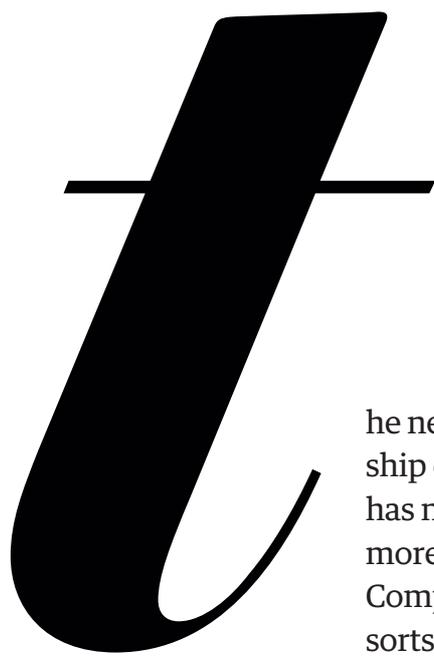
*t*he need for leadership development has never been more urgent. Companies of all sorts realize that to survive in today's volatile, uncertain, complex, and ambiguous environment, they need leadership skills and organizational capabilities different from those that helped them succeed in the past. There is also a growing recognition that leadership development should not be restricted to the few who are in or close to the C-suite. With the proliferation of collaborative problem-solving platforms and digital "adhocracies" that emphasize individual initiative, employees across the board are increasingly expected to make consequential decisions that align with corporate strategy and culture. It's important, therefore, that they be equipped with the relevant technical, relational, and communication skills.

The leadership development industry, however, is in a state of upheaval. The number of players offering courses to impart the hard and soft skills required of corporate managers has soared. And yet organizations that collectively spend billions of dollars annually to train current and future executives are growing frustrated with the results. Several large-scale industry studies, along with our own in-depth interviews with clients, indicate that more than 50% of senior leaders believe that their talent development efforts don't adequately build critical skills and organizational capabilities. (See the sidebar "The Problems with Traditional Executive Education.")

There are three main reasons for the disjointed state of leadership development. The first is a gap in motivations. Organizations invest in executive development for their own long-term good, but individuals participate in order to enhance their skills and advance their careers, and they don't necessarily remain with the employers who've paid for their training. The second is the gap between the skills that executive development programs build and those that firms require—particularly the interpersonal skills essential to thriving in today's flat, networked, increasingly collaborative organizations. Traditional providers bring deep expertise in teaching cognitive skills and measuring their development, but they are far less experienced in teaching people how to communicate and work with one another effectively. The third reason is the skills transfer gap. Simply put, few executives seem to take what they learn in the classroom and apply it to their jobs—and the farther removed the locus of learning is from the locus of application, the larger this gap becomes. (See the sidebar "The Skills Transfer Gap: What Is Learned Is Rarely Applied.") To develop essential leadership and managerial talent, organizations must bridge these three gaps.

The good news is that the growing assortment of online courses, social and interactive platforms, and learning tools from both traditional institutions and upstarts—which make up what we call the "personal learning cloud" (PLC)—offers a solution. Organizations can select components from the PLC and tailor them to the needs and behaviors of individuals and teams. The PLC is flexible and immediately accessible, and it enables employees to pick up skills in the context in which they must

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Idea in Brief

THE PROBLEM

Traditional approaches to leadership development no longer meet the needs of organizations or individuals.

THE REASONS

There are three: (1) Organizations, which pay for leadership development, don't always benefit as much as individual learners do. (2) Providers aren't developing the soft skills organizations need. (3) It's often difficult to apply lessons learned in class to the real world.

THE SOLUTION

A growing assortment of online courses, social platforms, and learning tools from both traditional providers and upstarts is helping to close the gaps.

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be used. In effect, it's a 21st-century form of on-the-job learning.

In this article we describe the evolution of leadership development, the dynamics behind the changes, and ways to manage the emerging PLC for the good of both the firm and the individual.

THE STATE OF LEADERSHIP DEVELOPMENT

The traditional players in the leadership development industry—business schools, corporate universities, and specialized training companies and consultancies—have been joined by a host of newcomers. These include human resource advisory firms, large management consultancies such as McKinsey and BCG, and digital start-ups such as Coursera and Udacity. This is a rapidly shifting landscape of service providers, but it's a world we've gotten to know intimately as educators, advisers, and leaders of the executive education programs at Rotman (in Mihnea's case) and Harvard Business School (in Das's case). And to help make sense of it all, we've constructed a table that compares the players (see the sidebar "The Landscape of Providers").

We're now seeing powerful trends reshaping the industry and fueling the emergence of the PLC as a networked learning infrastructure. First, the PLC has lowered the marginal cost of setting up an in-house learning environment and has enabled chief human resources officers (CHROs) and chief learning officers (CLOs) to make more-discerning decisions about the right experiences for the people and teams in their organizations. A Unicon study reports that the number of corporate universities—which provide education in-house, on demand, and, often, on the job—has exploded to more than 4,000 in the United States and more than twice that number worldwide. We believe that in the future, however,

The Problems with Traditional Executive Education

Chief learning officers find that traditional programs no longer adequately prepare executives for the challenges they face today and those they will face tomorrow. Companies are seeking the communicative, interpretive, affective, and perceptual skills needed to lead coherent, proactive collaboration. But most executive education programs—designed as extensions of or substitutes for MBA programs—focus on discipline-based skill sets, such as strategy development and financial analysis, and seriously underplay important relational, communication, and affective skills.

No wonder CLOs say they're having trouble justifying their annual training budgets.

Executive education programs also fall short of their own stated objective. "Lifelong learning" has been a buzzword in corporate and university circles for decades, but it is still far from a reality. Traditional executive education is simply too episodic, exclusive, and expensive to achieve that goal. Not surprisingly, top business schools, including Rotman and HBS, have seen demand increase significantly for customized, cohort-based programs that address companies' idiosyncratic talent-development needs. Corporate universities and the personal learning cloud—the growing mix of online courses, social and interactive platforms, and learning tools from both traditional institutions and upstarts—are filling the gap.

even as firms offer learning opportunities to more leaders throughout their organizations, the shifting cost structure resulting from the digitization of learning environments will lead to only a modest increase in resources devoted to leadership development.

The second trend is the decline of standard classroom-based programs for executive development, such as those primarily offered by business schools and universities. Most organizations are demanding pre- and postmeasures of the acquisition and application of relevant skills—such as communicative competence and leadership acumen—that traditional programs were never designed to deliver.

The third trend is the rise of customizable learning environments, through platforms and applications that personalize content according to learners' roles and their organizations' needs. The dominant platforms now count millions of enrollees in individual courses and tens of millions of total users.

These trends are linked and form a cohesive pattern: As learning becomes personalized, socialized, and adaptive, and as organizations get more sophisticated at gauging the return on investment in talent development, the industry is moving away from prepackaged one-size-fits-all material and turning instead to the PLC. The PLC enables the fast, low-cost creation of corporate universities and in-house learning programs in the same way that platforms such as Facebook and Instagram facilitate the formation of discussion groups. It is the "petri dish" that fosters the rapid growth of learning communities. And it's vital to keeping managers engaged and growing on the job.

Underlying and amplifying these trends is the rapid digitization of

Cambridge I

content and interaction, which is reshaping the leadership development industry in three important ways. First, it allows the disaggregation (or unbundling) of the low-cost elements of a program from the high-cost ones. Education providers' profits depend on their ability to bundle low-cost content—lectures, case discussions, exercises, and the like—with high-value experiences such as personalized coaching, project-based learning, and feedback-intensive group sessions. The more high-touch services included in the package, the more a provider can charge.

Second, digitization makes it easier to deliver value more efficiently. For example, classroom lectures can be videotaped and then viewed online by greater numbers of learners at their convenience. Similarly, discussion groups and forums to deepen understanding of the lecture concepts can be orchestrated online, often via platforms such as Zoom, Skype, and Google Hangouts, allowing many more people to participate—and with less trouble and expense. Millennials are already comfortable with social media–based interactions, so the value of being physically present on campus may be wearing thin anyway. And because discrete components of an online education program—individual lectures, case studies, and so forth—can be priced and sold independently, the cost of developing various skills has dropped—particularly technical and analytical skills whose teaching and learning have become sufficiently routinized.

Finally, digitization is leading to disintermediation. Traditionally, universities, business schools, and management consultancies have served as intermediaries linking companies and their employees to educators—academics, consultants, and coaches. Now, however, companies can go online to identify (and often curate) the highest-quality individual teachers, learning experiences, and modules—not just the highest-quality programs. Meanwhile, instructors can act as "free agents" and take up the best-paying or most-satisfying teaching gigs, escaping the routines and wage constraints of their parent organizations.

THE RISE OF THE PERSONAL LEARNING CLOUD

The PLC has been taking shape for about a decade. Its components include MOOCs (massive open online courses) and platforms such as

The Landscape of Providers

As demand grows for executive education that is customizable, trackable, and measurably effective, new competitors are emerging. Business schools, consultancies, corporate universities, and digital platforms are all vying to provide skills development programs, and each player has certain advantages and constraints.

		ADVANTAGE	CONSTRAINT
Business schools with open programs		A large store of intellectual and pedagogical capital	Limited capability to provide contextualized learning
Business schools with customized programs		Can adapt content to the challenges facing the client organization and ensure the transfer of core skills	Inadequate follow-up when customization reaches the realm of personal learning and design
Strategic consultancies		A highly contextualized approach to skills transfer and development	Inadequate technology and know-how for evaluation and feedback
Human resources consultancies		Can identify participants' core skills to create fully individualized coaching and development	A shortage of expertise in relevant functional domains
Corporate universities		Can deliver content that is immediately relevant to the organization, and in the context in which the skills will be applied	Limited ability to measure skills acquisition and application
Remote personalized learning platforms		Low-cost alternatives to programs that transfer functional and technical knowledge	Limits on contextualized learning and the development of relational, affective, and collaborative skills

Coursera, edX, and 2U for delivering interactive content online; corporate training and development ecosystems from LinkedIn Learning, Skillsoft, Degreed, and Salesforce Trailhead, targeting quick, certifiable mastery of core skills in interactive environments; on-demand, solution-centric approaches to leadership development from the likes of McKinsey Solutions, McKinsey Academy, BCG Enablement, and DigitalBCG; and talent management platforms such as SmashFly, Yello, and Phenom People, which make it possible to connect learning needs and learner outcomes to recruitment, retention, and promotion decisions.

The PLC has four important characteristics:

1. Learning is personalized. Employees can pursue the skills development program or practice that is right for them, at their own pace, using media that are optimally suited to their particular learning style and work environment. The PLC also enables organizations to track learner behaviors and outcomes and to commission the development and deployment of modules and content on the fly to match the evolving needs of individuals and teams.

2. Learning is socialized. As the experiences of Harvard's HBX and McKinsey's Academy series have shown, learning happens best when learners collaborate and help one another. Knowledge—both "know-what" and "know-how"—is social in nature. It is distributed within and among groups of people who are using it to solve problems together. The PLC enables the organic and planned

The Skills Transfer Gap:
What Is Learned Is Rarely Applied

One of the biggest complaints we hear about executive education is that the skills and capabilities developed don't get applied on the job. This challenges the very foundation of executive education, but it is not surprising. Research by cognitive, educational, and applied psychologists dating back a century, along with more-recent work in the neuroscience of learning, reveals that the distance between where a skill is learned (the locus of acquisition) and where it is applied (the locus of application) greatly influences the probability that a student will put that skill into practice.

Indeed, it's much easier to use a new skill if the locus of acquisition is similar to the locus of application. This is called near transfer. For instance, learning to map the aluminum industry as a value-linked activity chain transfers more easily to an analysis of the steel business (near transfer) than to an analysis of the semiconductor industry (far transfer) or the strategy consulting industry (farther transfer).

To be sure, when we say "distance," we're not referring just to physical range. New skills are less likely to be applied not only when the locus of application is far from the locus of acquisition in time and space (as when learning in an MBA classroom and applying the skills years later on the job) but also when the social (Who else is involved?) and functional (What are we using the skill for?) contexts differ.

Anecdotal evidence on skills transfer suggests that barely 10% of the $200 billion annual outlay for corporate training and development in the United States delivers concrete results. That's a staggering amount of waste. More to the point, it heightens the urgency for the corporate training and executive development industries to redesign their learning experiences.

skills they wish to cultivate and about the education programs, instructors, and learning experiences they want to use. The PLC's expanding ecosystem covers a broad array of skills. At one end lie functional skills (such as financial-statement analysis and big-data analytics) that involve cognitive thinking (reasoning, calculating) and algorithmic practices (do this first, this next). The PLC is already adept at helping individuals learn such skills at their own pace, and in ways that match the problems they face on the job.

At the other end of the spectrum lie skills that are difficult to teach, measure, or even articulate; they have significant affective components and are largely nonalgorithmic. These skills include leading, communicating, relating, and energizing groups. Mastery depends on practice and feedback, and the PLC is getting steadily better at matching talented coaches and development experts with the individuals and teams that need such training.

But this is just the beginning. The PLC is proving to be an effective answer to the skills transfer gap that makes it so difficult to acquire communicative and relational proficiencies in traditional executive education settings. Meaningful, lasting behavioral change is a complex process, requiring timely personalized guidance. Start-ups such as Accompany.io and Butterfly Coaching & Training are providing executive teams with a fabric of interactive activities that emphasize mutual feedback and allow them to learn on the job while doing the work they always do. BCG's Amethyst platform allows both executives and teams to enter into developmental relationships with enablers and facilitators so that they can build the collaborative capital they and their organizations need.

formation of teams and cohorts of learners who are jointly involved in developing new skills and capabilities. **3. Learning is contextualized.** As our interviews revealed, and as recent evidence from LinkedIn Learning has shown, most executives value the opportunity to get professional development on the job, in ways that are directly relevant to their work environment. The PLC enables people to do this, allowing them to learn in a workplace setting and helping ensure that they actually apply the knowledge and skills they pick up. **4. Learning outcomes can be transparently tracked and (in some cases) authenticated.** The rise of the PLC does not imply the demise of credentialing or an end to the signaling value of degrees, diplomas, and certificates.

Quite the contrary: It drives a new era of skills- and capabilities-based certification that stands to completely unbundle the professional degree. Indeed, in more and more cases, it's no longer necessary to spend the time and money to complete a professional degree, because organizations have embraced certifications and microcertifications that attest to training in specific skills. And seamless, always-on authentication is quickly becoming reality with the emergence of blockchains and distributed ledgers—such as those of Block.io and Learning Machine. Microcredentials are thus proliferating, because the PLC enables secure, trackable, and auditable verification of enrollment and achievement.

The PLC makes it possible for CLOs and CHROs to be precise both about the

The ubiquity of online training material allows CLOs to make choices among components of executive education at levels of granularity that

have simply not been possible until now. They can purchase only the experiences that are most valuable to them—usually at a lower cost than they would pay for bundled alternatives—from a plethora of providers, including coaches, consultants, and the anywhere, anytime offerings of the PLC. And executives are able to acquire experiences that fulfill focused objectives—such as developing new networks—from institutions such as Singularity University and the Kauffman Founders School, which are specifically designed for the purpose.

For learners, the PLC is not just an interactive learning cloud but also a distributed microcertification cloud. Blockchain-trackable microdegrees that are awarded for skill-specific (rather than topic-specific) coursework allow individuals to signal credibly (that is, unfakeably) to both their organizations and the market that they are competent in a skill. In addition, the PLC addresses the motivations gap by allowing both organizations and executives to see what they're buying and to pay for only what they need, when they need it.

Finally, the PLC is dramatically reducing the costs of executive development. Traditional programs are expensive. Courses take an average of five days to complete, and organizations typically spend between $1,500 and $5,000 per participant per day. These figures do not include the costs of selecting participants or measuring how well they apply their newly acquired skills and how well those skills coalesce into organizational capabilities. Nor do the figures account for the

losses incurred should participants choose to parlay their fresh credentials and social capital into employment elsewhere. Assuming, conservatively, that these pre- and posttraining costs can amount to about 30% of the cost of the programs, externally provided executive development can cost a company $1 million to $10 million a year, depending on the industry, the organizational culture and structure, and the nature of the programs in which the enterprise invests.

By contrast, the PLC can provide skills training to any individual at any time for a few hundred dollars a year. Furthermore, these cloud services allow organizations to match cost to value; offer client-relation management tools that can include pre-assessment and tracking of managerial performance; and deliver specific functional skills from high-profile providers on demand via dedicated, high-visibility, high-reliability platforms. Thus a 10,000-person organization could give half its employees an intensive, year-round program of skills development via an internally created and maintained cloud-based learning fabric for a fraction of what it currently pays to incumbent providers for equivalent programs.

WHAT THE FUTURE HOLDS

For companies that tap into the PLC, the fixed costs of talent development will become variable costs with measurable benefits. Massively distributed knowledge bases of content and learning techniques will ensure low marginal costs per learner, as learning becomes

adaptive. The ability to clearly specify the skill sets in which to invest, and the ability to measure the enhancement of individuals' learning and firms' capabilities, will ensure that the (variable) cost base of a corporate university can be optimized to suit the organization and adapted as necessary.

Individual learners will benefit from a larger array of more-targeted offerings than the current ecosystem of degrees and diplomas affords, with the ability to credibly signal skills acquisition and skills transfer in a secure distributed-computing environment. People will be able to map out personalized learning journeys that heed both the needs of their organizations and their own developmental and career-related needs and interests. And as the PLC reduces the marginal and opportunity costs of learning a key skill and simultaneously makes it easier to demonstrate proficiency, far more people will find it affordable and worthwhile to invest in professional development.

Meanwhile, with CLOs having greater visibility into the skills-development blueprints that providers use, the signaling value of traditional providers' offerings will decline because their programs will become easily replicable. That's already evident from the increasing number of "bake-offs" in which the leading B-schools are having to participate to win corporate business. Recently a prominent global financial-services firm considered training proposals from no fewer than 10 top-tier schools in the final round of evaluation—reflecting competition in the market that would not have happened even five years ago.

Increased competition will force incumbents to focus on their comparative advantage, and they must be mindful of how this advantage evolves as the PLC gains sophistication. We already see that the disaggregation of content and the rise of "free agent" instructors has made it possible for new entrants to work directly with name-brand professors, thus diminishing the value that many executive education programs have traditionally provided.

Now the PLC is starting to cut into the domain of higher-touch classroom-type experiences, with live case teaching and "action learning" programs that involve web-based case discussions and customized opportunities to tackle real-life problems. These advances are made possible by the capacity of online learning environments to offer synchronous multiperson sessions and to monitor participants via eye-tracking and gaze-following technologies. For example, IE Business School, in Madrid, uses technology that tracks facial expressions to measure the engagement of learners and facilitators in its online executive education programs. The Rotman School of Management's Self-Development Lab uses an emotional spectroscopy tool that registers people's voices, faces, and gazes as they converse.

Business schools will need to significantly rethink and redesign their current offerings to match their particular capabilities for creating teachable and learnable content and for tracking user-specific learning outcomes. They need to establish themselves as competent curators and designers of reusable content and learning experiences in a market in which organizations will need guidance on the best ways of developing and testing for new skills. Given the high marginal and opportunity costs of on-campus education, business schools should reconfigure their offerings toward blended and customized programs that leverage the classroom only when necessary.

Meanwhile, newcomers in leadership development are benefiting significantly from the distributed nature of the PLC—cherry-picking content, modules, and instructors from across the industry to put together the most compelling offerings for their client organizations. Large consultancies such as McKinsey and BCG can tap into their deep knowledge of organizational tasks, activities, and capabilities to provide clients with a new generation of flexible learning experiences, alongside their traditional strategic, organizational, operational, and financial "solution blueprints." Other entrants—such as human resources consultancies—can lean on their privileged access to organizational talent data (selection metrics and the traits of the most sought-after applicants) to design PLC-enabled "personal development journeys" for new hires, guided by best practices for building skills and tracking learning outcomes.

For individual learners, acquiring new knowledge and putting it into practice in the workplace entails significant behavioral change—something the skills transfer gap tells us is very hard and costly to accomplish through such purely didactic methods as lectures, quizzes, and exams. However, PLC applications that measure, track, and shape user behavior are a powerful way to make prescriptions and proscriptions actionable every day.

In the past, it was hard for the traditional players in leadership development to provide an ROI on the various individual components of their bundled programs. But the PLC is making it possible to measure skills acquisition and skills transfer at the participant, team, and organizational levels—on a per-program, per-session, per-interaction basis. That will create a new micro-optimization paradigm in leadership education—one that makes learning and doing less distinct. The payoff will be significant, for if a new concept, model, or method is to make a difference to an organization, it must be *used* by its executives, not just understood intellectually. And as platforms change the nature of talent development, leaders will emerge with the skills—and enough real-world practice applying them—to do the right thing, at the right time, for the right reason, in the right way. ⊚

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Learn from People, *Not* Classes

Whom do you know, and what can they teach you?

Reid Hoffman
Cofounder, LinkedIn

Chris Yeh
Entrepreneur

Ben Casnocha
Founder and partner, Village Global

OVER THE PAST two decades the internet has reshaped our daily lives and the world of business—so it's not surprising that it's transforming how companies develop talent. The emergence of a "personal learning cloud" makes it convenient and affordable for people to access new ways to learn. And that's a necessity: To keep pace with change and avoid disruption, business leaders must become what we call *infinite learners*—those who not only enjoy learning but feel a constant need to acquire new skills. The leaders and disrupters we meet in Silicon Valley and around the world are distinguished by the speed at which they zip up the learning curve. Regardless of age or industry, infinite learners are different from those who
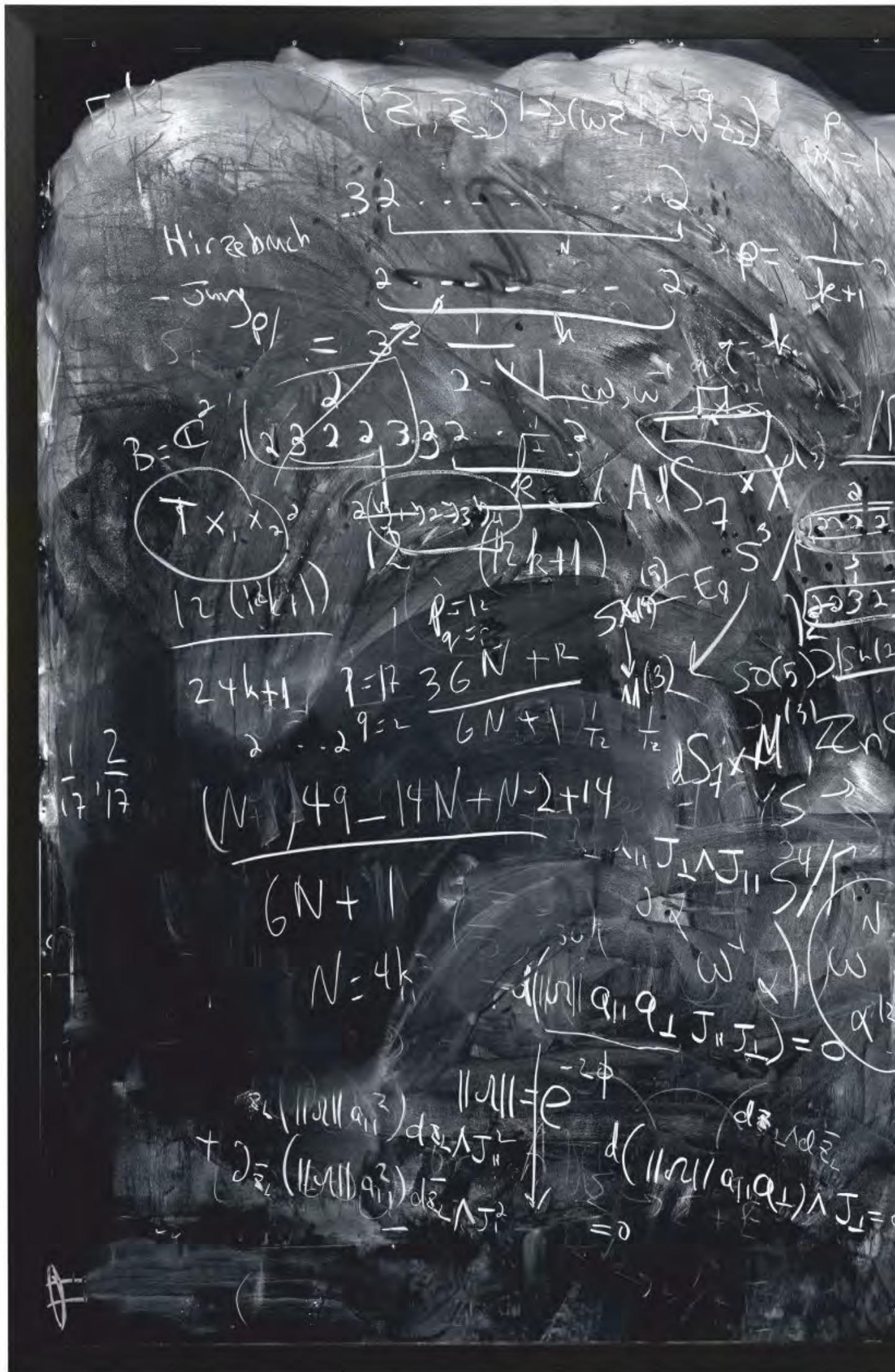
Harvard I

become terrified when suddenly required to learn something new—they find the challenge exhilarating.

Among the executives we meet, however, very little of this learning takes place in formal classes or programs, including online ones. Even as courses go virtual, executive education will struggle to keep pace if a company's environment is constantly changing. Picking courses out of a catalog won't provide the tools needed to adapt. We have interviewed many dozens of successful entrepreneurs and executives over the years, for our books and our podcasts, and we can't recall any who said that an executive education class played a vital role in their success.

The most successful leaders we know learn in a different way: by tapping into what we call *network intelligence.*

Consider how Reid solved a major business issue at PayPal by drawing on the knowledge of his network. At the time, PayPal was suffering seemingly endless delays in the launch of PayPal Japan. Each week its attorneys would find new regulatory issues that prolonged the process. Reid called eight friends with good connections in Japan and asked whom they knew who might be able to help. Three mentioned the same name: Joi Ito, a venture capitalist and entrepreneur. One introduction later, Reid was talking with him about the situation. Ito found a consultant who obtained a letter from the Japanese financial services agency stating that PayPal could launch its service immediately so long as the site wasn't in Japanese; English-language websites weren't legally considered to be operating in Japan. PayPal Japan debuted shortly thereafter, and Reid and Joi—who now directs the MIT Media Lab—struck up a friendship and collaboration that is still going strong.

Granted, it's usually easier to build a learning network if you're employed by a well-known firm, have a broad existing network, or have something in your background that will incline people to respond to your request. But it's worth the effort, given the potential of learning via one-on-one conversation. In that setting people often offer observations they might not share in a large group, online, or in writing. And because learning via conversation is driven by your questions, the lessons are delivered at your level. It also requires that you do your homework—there's no lurking passively in the (literal or virtual) back row.

Here's another instance of the power of one-on-one learning. When Brian Chesky, a true infinite learner, was scaling up Airbnb, he sought advice from people such as Warren Buffett. "If you find the right source, you don't have to read everything," Chesky told the class we teach at Stanford. "I've had to learn to seek out the experts. I wanted to learn about safety, so I went to George Tenet, the ex-head of the CIA."

Still, the world is full of experts who lack boldface names. "Talk with other entrepreneurs, not just famous entrepreneurs," the Dropbox cofounder Drew Houston told Reid on the *Masters of Scale* podcast. "Look for people who are one year, two years, five years ahead of you. You [will] learn very different and important things."

Online courses can be highly useful in some cases, especially for learning a specific technical skill (such as coding) or a managerial task (such as conducting a performance review) that's so ubiquitous that it rarely requires customization. Chris's teenage son takes online courses to develop his computer animation and video game design skills and finds them highly convenient and effective—he can learn on demand, without leaving his bedroom. This kind of online learning belongs in any leader's tool kit.

But it's smart to consider formal classes to be *a* source, not *the* source, of learning. Two decades ago Bill Gates wrote, "The most meaningful way to differentiate your company from your competition, the best way to put distance between you and the crowd, is to do an outstanding job with information. *How you gather, manage, and use information will determine whether you win or lose.*" This could not be truer today—but the way we've been socialized to think about information and knowledge is insufficient. Our formal education system treats knowledge as a fixed asset acquired during a certain phase of life. In reality, knowledge is constantly changing, and good leaders never stop acquiring and assimilating it.

In the Networked Age, every day is exam day—full of new, unpredictable challenges. Often the best way to learn how to meet them is to talk to people who have faced similar situations. All you need to do is ask. ⬡

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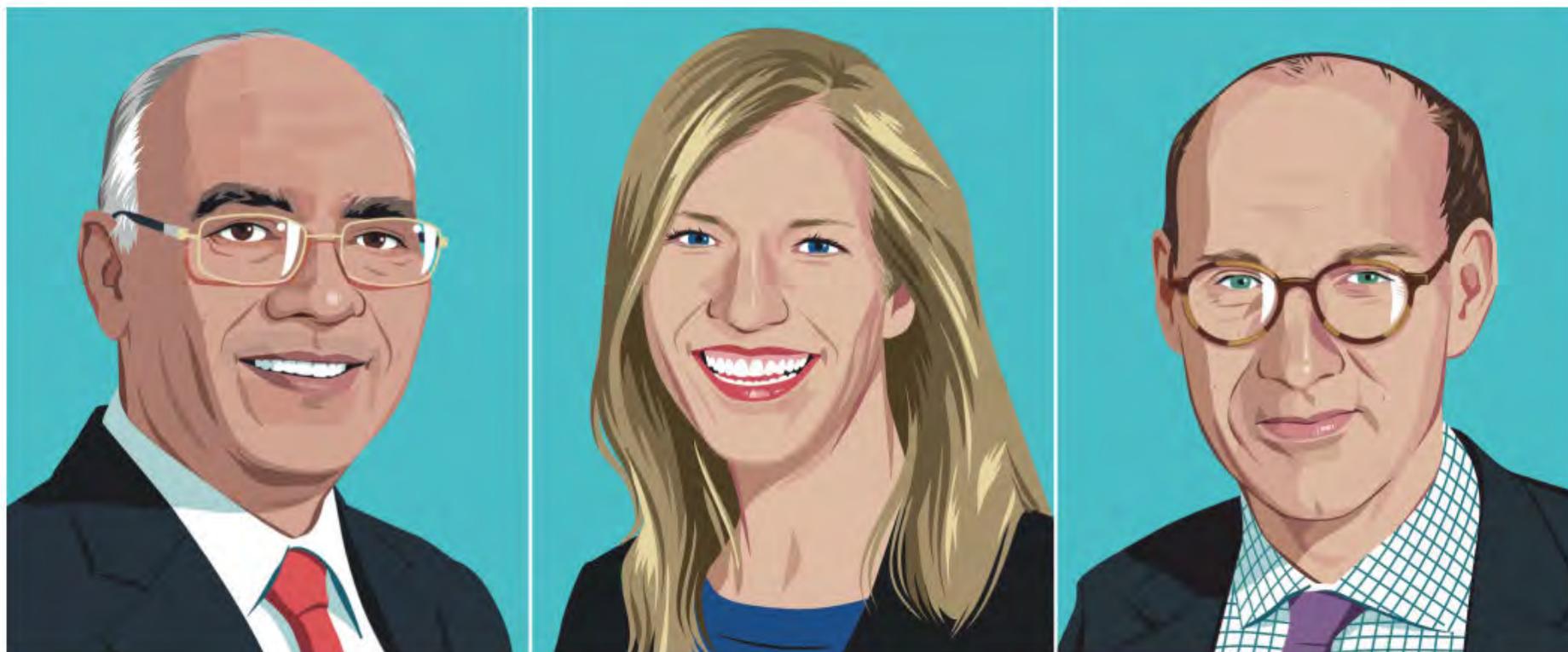
"We're Giving Ownership of Development to Individuals"

A roundtable with chief learning officers

TO UNDERSTAND how the "personal learning cloud" is changing the way companies think about developing executive talent, HBR editor Amy Bernstein and senior editor Daniel McGinn spoke with three heads of learning and development (L&D). Sankaranarayanan "Paddy" Padmanabhan is the executive chairman at Tata Business Excellence Group. Samantha Hammock is the chief learning officer at American Express. Nick van Dam was formerly the global chief learning officer at McKinsey & Company, where he is currently an external senior adviser; he was recently named chief learning officer at IE University. (Disclosure: The three firms are or have been clients of HBR's parent company, Harvard Business Publishing, which sells executive development programs.) Edited excerpts follow.

HBR: **Paddy, how is leadership development changing at Tata?**
PADMANABHAN: Back in the 1960s we created the Tata Management Training Centre, and for many years that was the primary way we developed leaders. But in the past 15 years we've gone beyond that. For very senior leaders—the C-level people in our businesses, and often the next level down—we look to outside institutions, including Harvard Business School, Stanford, the University of Chicago, the Indian Institute of Management, and London Business School. We nominate people for development programs at those schools, and employees are eager to

Illustrations by **BEN KIRCHNER**

"Development has gone far beyond the classroom: Today it's more of a conversation."

attend. Because Tata is a $110 billion holding company with dozens of operating companies, we also run a leadership culturalization program. It's very important that people be exposed to various companies within Tata, so we send executives to spend two or three days in different parts of the group. They immerse themselves, meet people, and create informal networks. We also do a lot through webinars. Development has gone far beyond the classroom: Today it's more of a conversation, with a lot of emphasis on building a knowledge network.

Samantha, what are the biggest changes at American Express?
HAMMOCK: Traditional learning and development has gone from instructor-led classroom training to virtual, global, scalable options. We've done this because work has changed. Companies aren't only more global; they are more virtual. More people work from home, which makes it impossible to do constant classroom training. The virtual approach also gives people flexibility and appeals to the fact that they want to learn differently. Some employees do the programs at night. Others want to do them during working hours. The biggest thing we get from virtual programs is that people can fit them into their lives.

Nick, what about at McKinsey?
VAN DAM: We're in the intellectual capital business, so we need continual development and learning. That is the central part of our core talent strategy. McKinsey is often referred to as a leadership factory; we have more than 440 alumni serving as CEOs of

multibillion-dollar companies. The biggest change in the past five years is the growth of demand for development. Our culture is now very inclusive in this regard: We look at all 28,000 of our people to determine how they can develop themselves. That requires broadening and deepening our capabilities. Clients expect us to be on the leading edge of thinking and doing and sharing insights, so we need to accelerate the development of people's capabilities.

With careers becoming less linear, is it hard to know what skills people need?
PADMANABHAN: When you have flatter organizations and fewer career "ladders," growth can become a challenge. We cope with that by creating a competency framework that addresses the skills and attributes required for every leadership role. If you're going to be the head of our U.S. business, it spells out the capabilities and attributes you must have. If you're going to be the production manager of a motor facility, you need different skills and attributes. These frameworks are only 50% or 60% perfect. A person's attitude, behavior, and presence also matter, so we give people opportunities to develop those, too. As ladder promotions become less common, career growth happens through movement across our group companies. This isn't a challenge at the C-suite level; it becomes a challenge a level or two down, when people have 10 to 15 years of experience and are ready to become a unit head or take P&L ownership. That's where bottlenecks can occur.

Is anything lost as talent development programs shift online?

HAMMOCK: You can never replace face-to-face interaction. The feedback from our big in-person sessions shows the value of bringing people together. But it's no longer possible or effective to have that be 80% of your model. Technology is creating better ways to conduct learning virtually. People can join from anywhere and feel like they're in class together.

In your programs, has the mix of soft and hard skills changed?
VAN DAM: It's difficult to cite a percentage, because a lot of development isn't about what happens in the classroom or on a digital learning platform. Leadership development is an ecosystem. There's learning on the job; there's client experience; there's staffing, apprenticeship, mentoring. Each is a building block. So is our performance culture. We have very clear expectations of people at different points in their careers, and we give extensive feedback that provides ongoing development goals. That lets people personalize their development; we call it Making Your Own McKinsey. The goal is to ensure that people are leading their own careers, exploring what they want to do, and making their own choices. We're giving ownership of development to individuals.

HAMMOCK: In terms of hard versus soft skills, they might shift in the future, but I don't think they have changed drastically to date. What *has* changed is how quickly hard skills can become obsolete, especially in technical roles. People struggle to stay ahead on the technical side, and they tend to be reactive—waiting to see how technology evolves so that they know what they need to learn next.

How challenging is it to personalize talent development?

VAN DAM: There are challenges. One relates to how you define people's career paths. Development experiences will vary according to career paths, and different roles require different competencies. Even in a classroom environment, different people will require different levels of proficiency. When it comes to digital learning, we curate content that we believe is the best fit for people's capability development. Our people like to know what's expected of them, and they don't want to spend a lot of time trying to figure out which of the 50 digital learning objects might be right for them. They want us to direct them to the best, most relevant content. Some people like to learn by watching a video rather than reading a PDF. That's another level of personalization. Finally, personalization is also about how much time people can allocate to learning programs.

When employees are learning virtually, how important is it to form relationships with other participants?

HAMMOCK: Cohorts are critical. Even with virtual work, a top success factor is a well-rounded, diverse cohort that helps people feel engaged. We put a lot of care into assembling these groups so that our employees have a positive experience.

With the shift to digital learning, do you worry about whether people are taking the time to participate?

PADMANABHAN: For midlevel employees and below, most knowledge is delivered via digital media. Every company has its own method. Take a store manager in a retail chain. That person will receive content on his or her smartphone that's focused on building the capabilities necessary to manage the store. That kind of content is largely about convenience, so there might be 15-minute modules. The convenience increases utilization. For people who are 25 or 30, who grew up on YouTube and online, this form of learning is prevalent, so utilization isn't a problem. For people over 45 and at senior levels, digital learning isn't as common. For them, leadership development continues to be in the classroom and on the job, partly because that provides better networking opportunities.

How do you measure L&D's success?

PADMANABHAN: For the CEOs who lead Tata Group's 100 or so businesses, we assess it on the basis of their performance. Within a couple of years of moving into the job, can the CEO manage multiple stakeholders? Is the CEO comfortable in the role? Many things contribute to how each CEO develops, but we look at whether learning and development programs and job rotations have contributed to creating an effective CEO, CXO, or group head. It's very difficult to measure the effectiveness of these programs for leaders. At lower levels there are more-measurable skills—a link to productivity, or better customer satisfaction. But at high levels it's hard to attribute leadership to the effectiveness of training in any systematic manner.

VAN DAM: For us, it's about how we can make sure we have more impact for our clients and how we can expand the scope. Can we do it better? We can grow only if we have more partners in the firm, so one measure is how well we are developing people to become partner. We also see the value of investments in L&D when we are attracting people. Today more people decide to join an organization because they believe it's a place where they can take their skills to the next level, so L&D is linked to recruiting. Nobody at McKinsey would ever ask me to do a purely financial return-on-investment calculation about every dollar we spend on learning and development; you can't do that. But we know there is an ROI and a huge client impact. We also know that formal leadership development is only one piece of the pie. Globally and across industries, the typical person spends something like 40 hours a year in formal learning programs, out of 1,800 hours on the job. So there's a tremendous opportunity in many organizations to advance on-the-job development by turning the workplace into a learning place.

Is the cost of developing talent hard to justify when people are likely to leave the firm for their next job?

HAMMOCK: We've spent a lot of time debating that, particularly in the past year, when we made a large investment in our flagship leadership program. Ultimately we decided that we want to grow great leaders, and we want American Express to be known for that. For instance, we encourage employees to list the certifications they earn on their LinkedIn page, even though that increases their visibility externally. Ideally we want them to find their next opportunity internally, but we know some of them will move on, and that's OK. **HBR Reprint** R1902B

Features
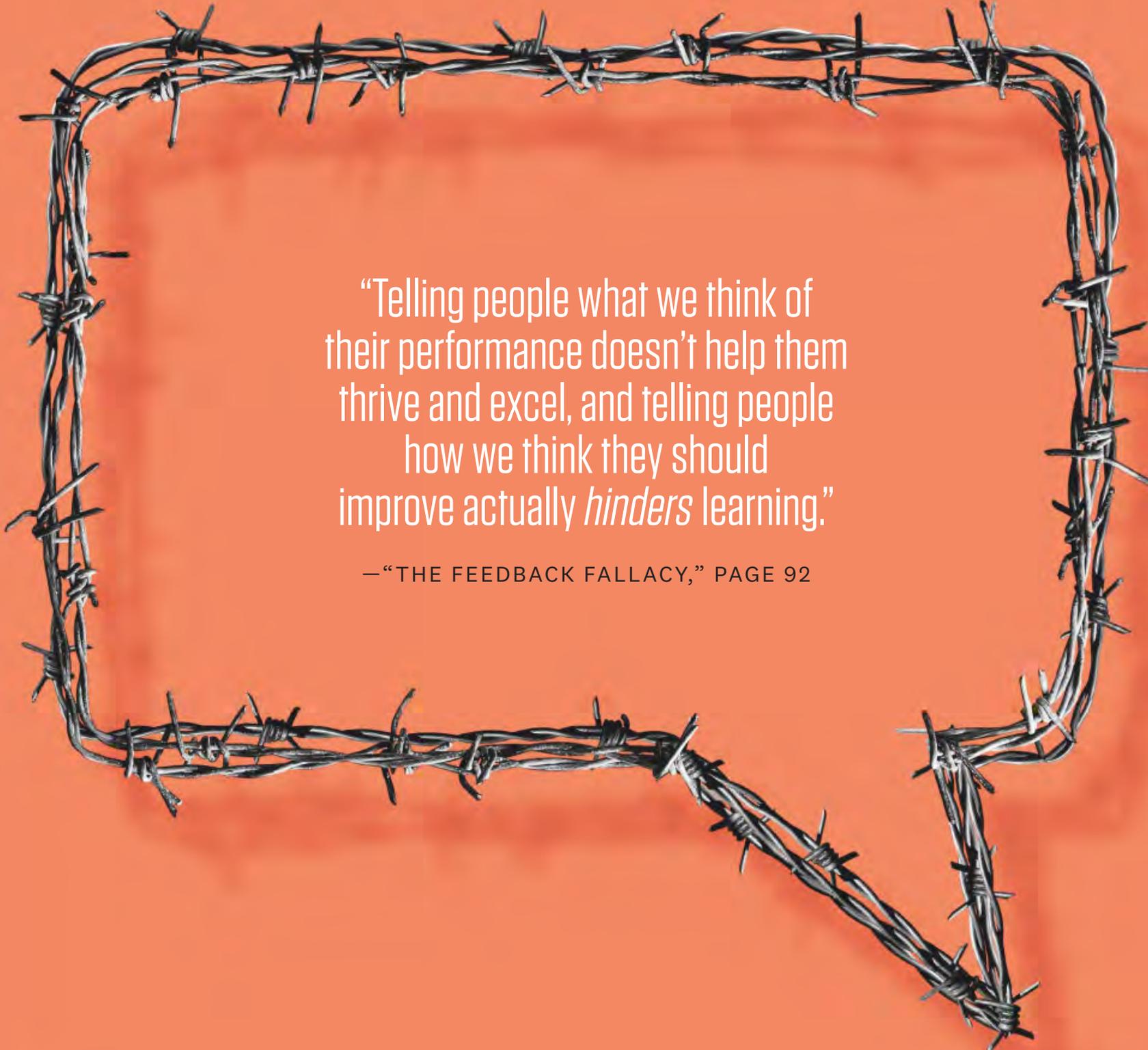
"Telling people what we think of their performance doesn't help them thrive and excel, and telling people how we think they should improve actually *hinders* learning."

—"THE FEEDBACK FALLACY," PAGE 92

Illustration by **MATT CHASE**

Adam Brandenburger
*Professor,
NYU Stern School*

STRATEGY

Strategy Needs Creativity

An analytic framework alone won't reinvent your business.
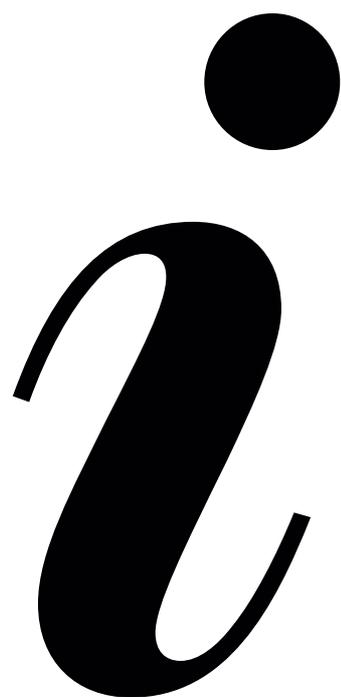
i've noticed that business school students often feel frustrated when they're taught strategy. There's a gap between what they learn and what they'd like to learn. Strategy professors (including me) typically teach students to think about strategy problems by introducing them to rigorous analytical tools—assessing the five forces, drawing a value net, plotting competitive positions. The students know that the tools are essential, and they dutifully learn how to use them. But they also realize that the tools are better suited to understanding an existing business context than to dreaming up ways to reshape it. Game-changing strategies, they know, are born of creative thinking: a spark of intuition, a connection between different ways of thinking, a leap into the unexpected.

They're right to feel this way—which is not to say that we should abandon the many powerful analytical tools we've developed over the years. We'll always need them to understand competitive landscapes and to assess how companies can best deploy their resources and competencies there. But we who devote our professional lives to thinking about strategy need to acknowledge that just giving people those tools will not help them break with conventional ways of thinking. If we want to teach students—and executives—how to generate groundbreaking strategies, we must give them tools explicitly designed to foster creativity.

A number of such tools already exist, often in practitioner-friendly forms. In "How Strategists Really Think: Tapping the Power of Analogy" (HBR, April 2005), Giovanni Gavetti and Jan W. Rivkin write compellingly about using analogies to come up with new business models. Charles Duhigg talks in his book *Smarter Faster Better* about introducing carefully chosen creative "disturbances" into work processes to spur new thinking. Youngme Moon, in "Break Free from the Product Life Cycle" (HBR, May 2005), suggests redefining products by boldly limiting—rather than augmenting—the features offered.

What these approaches have in common is the goal of moving strategy past the insights delivered by analytic tools (which are close at hand) and into territory that's further afield, or—to use a bit of academic jargon—*cognitively distant*. They take their inspiration more from how our thought processes work than from how industries or business models are structured. For that reason they can help strategists make the creative leap beyond what already exists to invent a genuinely new way of doing business. Simply waiting for inspiration to strike is not the answer.

In this article I explore four approaches to building a breakthrough strategy: **1**/**Contrast**. The strategist should identify—and challenge—the assumptions undergirding the company's or the industry's status quo. This is the most direct and often the most powerful way to reinvent a business. **2**/**Combination**. Steve Jobs famously said that creativity is "just connecting things"; many smart business moves come from linking products or services that seem independent from or even in tension with one another. **3**/**Constraint**. A good strategist looks at an organization's limitations and considers how they might actually become strengths. **4**/**Context**. If you reflect on how a problem similar to yours was solved in an entirely different context, surprising insights may emerge. (I wrote about these ideas more academically in "Where Do Great Strategies Really Come From?" *Strategy Science,* December 2017.) These approaches aren't exhaustive—or even entirely distinct from one another—but I've found that they help people explore a wide range of possibilities.
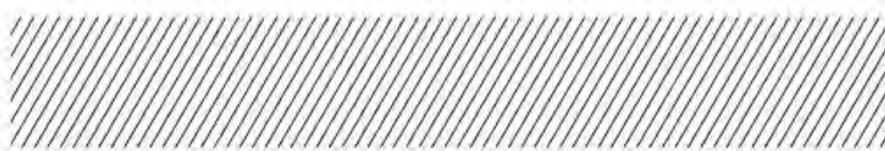
Contrast

What pieces of conventional wisdom are ripe for contradiction?

TO CREATE A strategy built on contrast, first identify the assumptions implicit in existing strategies. Elon Musk seems to have a knack for this approach. He and the other creators of PayPal took a widely held but untested assumption about

banking—that transferring money online was feasible and safe between institutions but not between individuals—and disproved it. With SpaceX he is attempting to overturn major assumptions about space travel: that it must occur on a fixed schedule, be paid for by the public, and use onetime rockets. He may be on track toward a privately funded, on-demand business that reuses rockets.

It's best to be precise—even literal—when naming such assumptions. Consider the video rental industry in 2000. Blockbuster ruled the industry, and the assumptions beneath its model seemed self-evident: People pick up videos at a retail location close to home. Inventory must be limited because new videos are expensive. Since the demand for them is high, customers must be charged for late returns. (It was basically a public-library model.) But Netflix put those assumptions under a microscope. Why is a physical location necessary? Mailing out videos would be cheaper and more convenient. Is there a way around the high fees for new releases? If the studios were open to a revenue-sharing agreement, both parties could benefit. Those two changes allowed Netflix to carry lots more movies, offer long rental periods, do away with late fees—and remake an industry.

Most of the time, strategy from contrast may look less revolutionary than Netflix (which remade itself again by streaming videos and becoming a content creator) or SpaceX (should it succeed). Any organization can ask whether it might usefully flip the order in which it performs activities, for example. The traditional model in retail is to start with a flagship store (usually in a city center) and add satellites (in suburban locations). Now consider pop-up stores: In some cases they conform to the old model—they are like mini-satellites; but in others the pop-up comes first, and if that's successful, a larger footprint is added. The Soho area of New York City has become a testing ground for this strategy.

Another approach is to consider shaking up the value chain, which in any industry is conventionally oriented in a particular way, with some players acting as suppliers and others as customers. Inverting the value chain may yield new business models. In the charitable sector, for example, donors have been seen as suppliers of financial resources. DonorsChoose.org is a model that treats them more like customers. The organization puts up a "storefront" of requests posted by schoolteachers around the United States who are looking for materials for their (often underresourced) classrooms. Donors can choose which requests to respond to and receive photos of the schoolwork that their money has supported. In effect, they are buying the satisfaction of seeing a particular classroom before and after.

In some industries the status quo has dictated highly bundled, expensive products or services. Unbundling them is another way to build a contrast strategy. Various segments of the market may prefer to get differing subsets of the bundle at better prices. Challengers' unbundling of the status quo has been facilitated by the internet in one industry after another: Music, TV, and education are leading examples. Incumbents have to make major internal changes to compete with unbundlers, rendering this approach especially effective.

HOW TO BEGIN

1/ Precisely identify the assumptions that underlie conventional thinking in your company or industry.
2/ Think about what might be gained by proving one or more of them false.
3/ Deliberately disturb an aspect of your normal work pattern to break up ingrained assumptions.

WHAT TO WATCH OUT FOR

Because the assumptions underlying your business model are embedded in all your processes—and because stable businesses need predictability—it won't be easy to change course. Organizations are very good at resisting change.

Idea
in Brief

THE PROBLEM
The field of strategy over-focuses on analytic rigor and underfocuses on creativity.

WHY IT MATTERS
Analytic tools are good at helping strategists develop business ideas that are close at hand—but less good at discovering transformative strategies.

IN PRACTICE
The wise strategist can work with four creativity-enhancing tools: contrast, combination, constraint, and context.

Combination

How can you connect products or services that have traditionally been separate?

COMBINATION IS A canonical creative approach in both the arts and the sciences. As Anthony Brandt and David Eagleman note in *The Runaway Species,* it was by combining two very different ideas—a ride in an elevator and a journey into space—that Albert Einstein found his way to the theory of general relativity. In business, too, creative and successful moves can result from combining things that have been separate. Often these opportunities arise with complementary products and services. Products and payment systems, for example, have traditionally been separate nodes in value chains. But the Chinese social media platform WeChat (owned by Tencent) now includes an integrated mobile payment platform called WeChat Pay that enables users to buy and sell products within their social networks. Expanding beyond the Chinese ecosystem, Tencent and Alibaba are coordinating with overseas payment firms to enable retailers in other countries to accept their mobile payment services.

Sometimes competitors can benefit from joining forces to grow the pie. (Barry Nalebuff and I explored this idea in our 1996 book *Co-opetition.*) For example, BMW and Daimler have announced plans to combine their mobility services—car sharing, ride hailing, car parking, electric vehicle charging, and tickets for public transport. Presumably, the two automakers hope that this move will be an effective counterattack against Uber and other players that are encroaching on the traditional car industry.

In other instances, companies from wholly separate industries have created new value for customers by combining offerings. Apple and Nike have done so since the 2006 introduction of the Nike+ iPod Sport Kit, which enabled Nike shoes to communicate with an iPod for tracking steps. More recently, versions of the Apple Watch have come with the Nike+ Run Club app fully integrated. Nest Labs and Amazon also complement each other: Nest's intelligent home thermostat becomes even more valuable when it can deploy voice control via Amazon's virtual assistant, Alexa.

New technologies are a rich source of combinatorial possibilities. AI and blockchain come together naturally to protect the privacy of the large amounts of personal data needed to train algorithms in health care and other sensitive areas. Blockchain and the internet of things come together in the form of sensors and secure data in decentralized applications such as food supply chains, transportation systems, and smart homes, with automated insurance included in smart contracts.

Perhaps the biggest combination today is the one emerging between humans and machines. Some commentators see the future of that relationship as more competitive than cooperative, with humans losing out in many areas of economic life. Others predict a more positive picture, in which machines take on lower-level cognition, freeing humans to be more creative. Martin Reeves and Daichi Ueda have written about algorithms that allow companies to make frequent, calibrated adjustments to their business models, enabling humans to work on high-level objectives and think beyond the present. (See "Designing the Machines That Will Design Strategy," HBR.org, April 2016.)

Strategy from combination involves looking for connections across traditional boundaries, whether by linking a product and a service, two technologies, the upstream and the downstream, or other ingredients. Here, too, the creative strategist must challenge the status quo—this time by thinking not just outside the box but across two or more boxes.

HOW TO BEGIN

1/ Form groups with diverse expertise and experience; brainstorm new combinations of products and services.
2/ Look for ways to coordinate with providers of complementary products (who may even be competitors).

WHAT TO WATCH OUT FOR

Businesses often manage for and measure profits at the individual product or activity level. But combinations require system-level thinking and measurements.

Constraint

How can you turn limitations or liabilities into opportunities?

THE WORLD'S FIRST science fiction story, *Frankenstein,* was written when its author, Mary Wollstonecraft Shelley,

was staying near Lake Geneva during an unusually cold and stormy summer and found herself trapped indoors with nothing to do but exercise her imagination. Artists know a lot about constraints—from profound ones, such as serious setbacks in their lives, to structural ones, such as writing a 14-line poem with a specified rhyming structure. In business, too, creative thinking turns limitations into opportunities.

That constraints can spark creative strategies may seem paradoxical. Lift a constraint, and any action that was previously possible is surely still possible; most likely, more is now possible. But that misses the point that one can think multiple ways in a given situation—and a constraint may prompt a whole new line of thinking. Of course, the Goldilocks principle applies: Too many constraints will choke off all possibilities, and a complete absence of constraints is a problem too.

Tesla hasn't lacked financial resources in entering the car industry, but it doesn't have a traditional dealership network (considered a key part of automakers' business models) through which to sell. Rather than get into the business of building one, Tesla has chosen to sell cars online and to build Apple-like stores staffed with salespeople on salary. This actually positions the company well relative to competitors, whose dealers may be conflicted about promoting electric vehicles over internal-combustion ones. In addition, Tesla controls its pricing directly, whereas consumers who buy electric vehicles from traditional dealers may encounter significant variations in price.

I should note that this attitude toward constraints is very different from that suggested by the classic SWOT analysis. Strategists are supposed to identify the strengths, weaknesses, opportunities, and threats impinging on an organization and then figure out ways to exploit strengths and opportunities and mitigate weaknesses and threats.

In stark contrast, a constraint-based search would look at how those weaknesses could be turned to the company's

advantage. Constraint plus imagination may yield an opportunity.

This approach to strategy turns the SWOT tool upside down in another way as well. Just as an apparent weakness can be turned into a strength, an apparent strength can prove to be a weakness. The likelihood of this often increases over time, as the assets that originally enabled a business to succeed become liabilities when the environment changes. For example, big retailers have historically considered "success" to be moving product out the door; to that end, they needed large physical footprints with on-site inventory. Among the many changes they face today is the rise of "guideshops"—a term used by the menswear retailer Bonobos—where shoppers try on items, which they can have shipped to them or later order online. In the new environment, traditional retail footprints become more of a liability than an asset.

Another way to approach strategy from constraint is to ask whether you might benefit from self-imposed constraints. (Artists do something similar when they choose to work only within a particular medium.) The famous Copenhagen restaurant Noma adheres to the New Nordic Food manifesto (emphasizing purity, simplicity, beauty, seasonality, local tradition, and innovation). A similar strategy of working only with local suppliers has been adopted by thousands of restaurants around the world. A commitment to high environmental standards, fair labor practices, and ethical supply-chain management can be powerful for organizations looking to lead change in their industries or sectors.

Self-imposed constraints can also spur innovation. Adam Morgan and Mark Barden, in their book *A Beautiful Constraint,* describe the efforts of the Audi racing team in the early 2000s to win Le Mans under the assumption that its cars couldn't go faster than the competition's. Audi developed diesel-powered racers, which required fewer fuel stops than gasoline-powered cars, and won Le Mans three years in succession (2004–2006). In 2017 Audi set itself a new constraint—and a new ambition: to build winning all-electric racers for the new Formula E championship.

HOW TO BEGIN

1/ List the "incompetencies" (rather than the competencies) of your organization—and test whether they can in fact be turned into strengths.
2/ Consider deliberately imposing some constraints to encourage people to find new ways of thinking and acting.

WHAT TO WATCH OUT FOR

Successful businesses face few obvious constraints; people may feel no need to explore how new ones might create new opportunities.

Context

How can far-flung industries, ideas, or disciplines shed light on your most pressing problems?

AN ENTIRE FIELD, biomimetics, is devoted to finding solutions in nature to problems that arise in engineering, materials science, medicine, and elsewhere. For example, the burrs from the burdock plant, which propagate by attaching to the fur of animals via tiny hooks, inspired George de Mestral in the 1940s to create a clothing fastener that does not jam (as zippers are prone to do). Thus the invention of Velcro. This is a classic problem-solving technique. Start with a problem in one context, find another context in which an analogous problem has already been solved, and import the solution.

Intel did that when it came up with its famous Intel Inside logo, in the early 1990s. The goal was to turn Intel microprocessors into a branded product to speed up consumers' adoption of next-generation chips and, more broadly, to improve the company's ability to drive the PC industry forward. Branded ingredients were well established in certain consumer product sectors—examples include Teflon and NutraSweet—but hadn't been tried in the world of technology. Intel imported the approach to high tech with a novel advertising campaign, successfully branding what had previously been an invisible computer component.

Context switching can be done across industries, as in Intel's case, or even across time. The development of the graphical user interface (GUI) for computers was in a sense the result of a step backward: The developers moved from immersion in the text-based context in which programming had grown up to thinking about the highly visual hand-eye environment in which young children operate. Similarly, some AI researchers are currently looking at how children learn in order to inform processes for machine learning.

Companies are always eager to see into the future, of course, and techniques for trying to do so are well established. That is the purpose of lead-user and extreme-user innovation strategies, which ask companies to shift their attention from

mainstream customers to people who are designing their own versions or using products in unexpected ways in especially demanding environments. Information about where the edges of the market are today can signal where the mainstream will be tomorrow. Extreme sports, such as mountain biking, skateboarding, snowboarding, and windsurfing, are good examples. In an MIT Sloan School working paper, Sonali Shah relates that aficionados led many of the innovations in those areas, starting in the 1950s, and big manufacturers added cost efficiencies and marketing to take them mainstream.

When companies locate R&D functions far from head-quarters, they're acknowledging the importance of jumping into someone else's context. This is not just a strategy for large companies that move people to Silicon Valley for tech or the Boston area for biotech. Start-ups, too, should put themselves in the best context for learning and growth. The hardware accelerator HAX, located in Shenzhen, hosts hardware start-up teams from numerous countries and enables them to tap into the high-speed ecosystem of the "hardware capital of the world," quadrupling the rate at which they cycle through iterations of their prototypes.

Strategy focused on context may involve transferring a solution from one setting to another more or less as is. It may mean uncovering entirely new thinking about problems (or opportunities) by finding pioneers who are ahead of the game. At bottom, it's about not being trapped in a single narrative.

HOW TO BEGIN

1/ Explain your business to an outsider in another industry. Fresh eyes from a different context can help uncover new answers and opportunities.
2/ Engage with lead users, extreme users, and innovation hotspots.

WHAT TO WATCH OUT FOR

Businesses need to focus on internal processes to deliver on their current value propositions—but the pressure to focus internally can get in the way of learning from the different contexts in which other players operate.

IN THE WORLD of management consulting, aspects of "strategy" and "innovation" have started to converge. IDEO, the design and innovation powerhouse, has moved into

FURTHER READING

STRATEGY FROM CONTRAST

Originals: How Non-Conformists Move the World
Adam Grant
Viking, 2016

Quirky: The Remarkable Story of the Traits, Foibles, and Genius of Breakthrough Innovators Who Changed the World
Melissa A. Schilling
PublicAffairs, 2018

Smarter Faster Better: The Secrets of Being Productive in Life and Business (Chapter 7)
Charles Duhigg
Random House, 2016

STRATEGY FROM COMBINATION

Co-opetition (Chapter 2)
Adam M. Brandenburger and Barry J. Nalebuff
Currency Doubleday, 1996

The Runaway Species: How Human Creativity Remakes the World (Chapter 5)
Anthony Brandt and David Eagleman
Catapult, 2017

Deep Thinking: Where Machine Intelligence Ends and Human Creativity Begins
Garry Kasparov
PublicAffairs, 2017

STRATEGY FROM CONSTRAINT

A Beautiful Constraint: How to Transform Your Limitations into Advantages, and Why It's Everyone's Business
Adam Morgan and Mark Barden
Wiley, 2015

"Break Free from the Product Life Cycle"
Youngme Moon
HBR, May 2005

Why Not? How to Use Everyday Ingenuity to Solve Problems Big and Small (Chapter 3)
Barry J. Nalebuff and Ian Ayres
Harvard Business Review Press, 2006

STRATEGY FROM CONTEXT

"How Strategists Really Think: Tapping the Power of Analogy"
Giovanni Gavetti and Jan W. Rivkin
HBR, April 2005

Democratizing Innovation
Eric von Hippel
The MIT Press, 2006

"Discovery Through Doing"
Roger Kneebone
Nature, 2017

strategy consulting, for example—while McKinsey has added design-thinking methods to its strategy consulting. This convergence raises an obvious question: If the distinction between strategy and innovation is less clear than it once was, do we really need to think carefully about the role of creativity in the strategy-making process?

I believe strongly that the answer is yes. At its core, strategy is still about finding ways to create and claim value through differentiation. That's a complicated, difficult job. To be sure, it requires tools that can help identify surprising, creative breaks from conventional thinking. But it also requires tools for analyzing the competitive landscape, the dynamics threatening that landscape, and a company's resources and competencies. We need to teach business school students—and executives—how to be creative and rigorous at the same time. ⊚   **HBR Reprint** R1902C

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The Collaboration Blind Spot

Too many managers ignore the greatest threat in launching cross-group initiatives: provoking defensive behaviors.
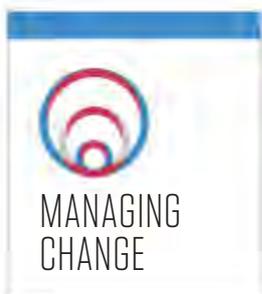
A few years ago,

the leaders of a multibillion-dollar energy systems company, which I'll call EnerPac, decided to offer an after-sales service plan for one of its products. The new plan promised to generate a sizable new revenue stream and was strategically important for the company. The key to success would be figuring out how to integrate the service plan seamlessly with the sales process. And the best way to make that happen, the company's leaders knew, would be to bring people from the sales and service departments together and ask them to collaborate.

Leaders understand the central role that cross-group collaboration plays in business today. It's how companies of all shapes and sizes—from Starbucks and SpaceX to boutique banks and breweries—plan to innovate, stay relevant, and solve problems that seem unsolvable. It's how they plan to meet changing customer expectations, maintain market share, and stay ahead (or just abreast) of competitors. In short, it's how companies plan to succeed, compete, and just survive.

The leaders of EnerPac understood this well. So they forged ahead with their initiative. They convened a special meeting with Sales and Service in which they explained the financial and strategic importance of the new offering. They developed a clear action plan for the weeks and months ahead. They came up with incentives, made a senior leader available to both groups expressly for the venture, and funded it amply. Only after they'd put check marks in all those boxes did they officially launch the collaboration, with high hopes for the results.

But the initiative ran into problems almost immediately. Sales and Service just weren't collaborating. Instead, they began making important decisions about the project on their own and excluded each other from meetings about topics of mutual concern. They dragged their feet in sharing data—or dumped so much data on each other, in so many different formats, that making sense of it became almost impossible. Needless to say, they started missing project milestones. Ultimately, the initiative sputtered to a halt.

EnerPac's leaders were flummoxed. They'd bent over backward to get the project off to a good start, and everybody had seemed on board. What had happened?

Stalling Out

For the past eight years, I've done extensive research into what makes cross-group collaboration succeed and fail. For six of those years, as part of my doctoral research at Harvard Business School, I devoted attention to three global companies and, separately, conducted 120 interviews with managers and employees at 53 companies where groups had been asked to collaborate but were failing to do so. Time and again, I came across leaders who were scratching their heads—or pulling their hair out—as they tried to figure out why their initiatives weren't progressing as planned. Each situation was different, of course. But the roots of the problems can be traced back to the same initial cause. I call it the collaboration blind spot.

Here's the problem: In mandating and planning for collaborative initiatives, leaders tend to focus on logistics and processes, incentives and outcomes. That makes perfect sense. But in doing so they forget to consider how the groups they're asking to work together might experience the request—especially when those groups are being told to break down walls, divulge information, sacrifice autonomy, share resources, or even cede responsibilities that define them as a group. All too often, groups feel threatened by such demands, which seem to represent openings for others to encroach on their territory. What if the collaboration is a sign that they've become less important to the company? What if they give up important resources and areas of responsibility and never get them back? What will happen to their reputation?

Nagged by concerns about their security, groups that have been asked to collaborate often retreat into themselves and reflexively assume a defensive posture. Their top priorities: Guard the territory, minimize the threat.

This kind of behavior can have consequences that extend beyond the collaboration at hand. A group focused on protecting its turf and minimizing threats can come across as uncooperative and a poor team player. Word gets around that it "can't be trusted" or is "two-faced"—assessments that can harm future efforts to collaborate before they begin.
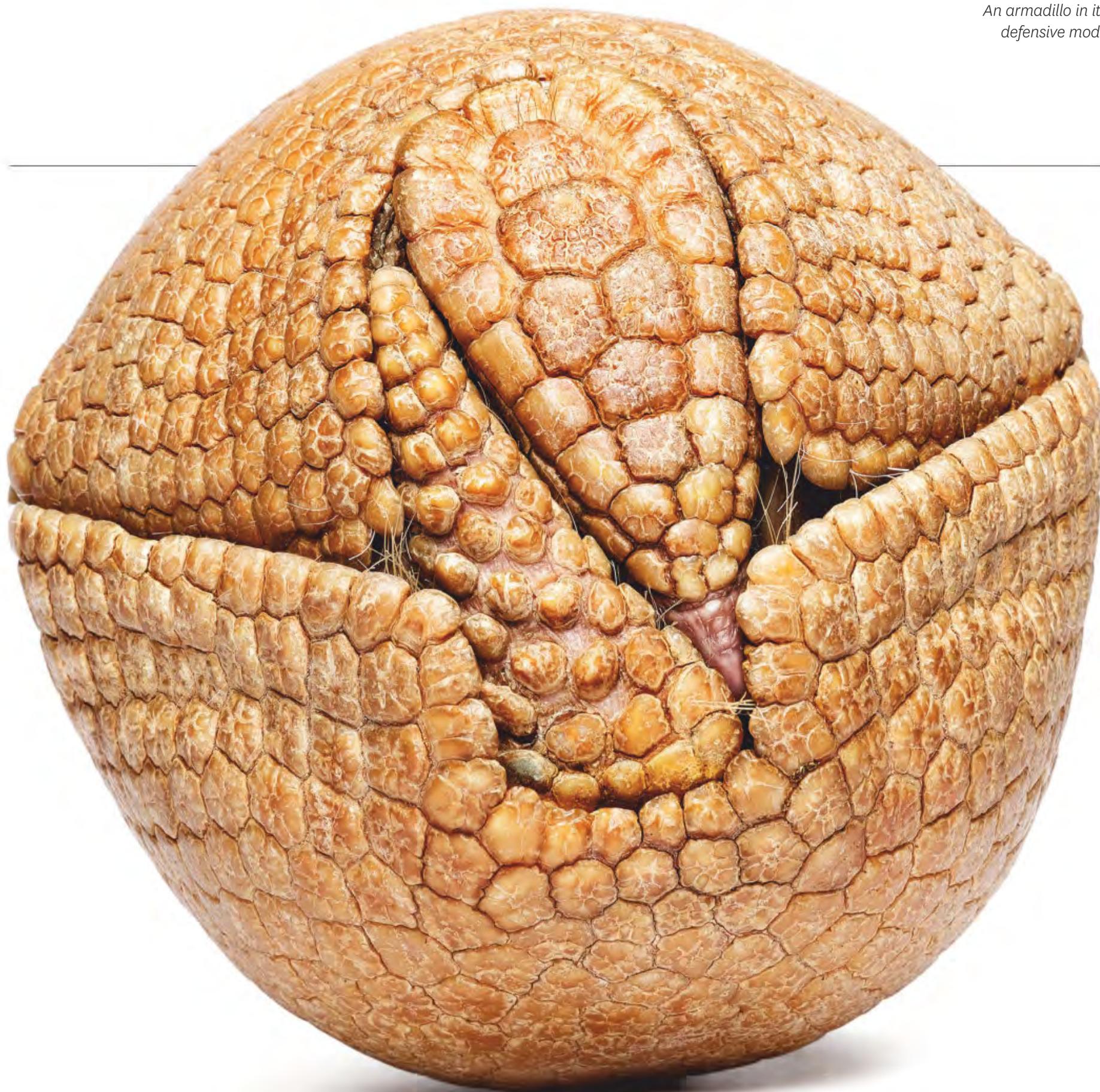
Idea in Brief

THE PROBLEM

When leaders launch cross-group initiatives, they often fail to consider how the proposed collaboration might threaten the security of those involved. Groups may feel that their territory is being encroached on and reflexively assume a defensive posture.

THE SOLUTION

Leaders who want to foster effective cross-group collaboration should start by doing a threat assessment. How might the collaboration threaten the identity, legitimacy, and control of the groups involved? Only after leaders have checked their collaboration blind spot should they focus on logistics, processes, and outcomes.

An Existential Threat

Let's look more closely at the collaboration blind spot, this time in the context of a global insurance company I'll call InsureYou. A few years ago, the company's leaders launched a collaboration that stalled in a manner very similar to that of the collaboration at EnerPac—but ultimately, and instructively, they recognized what had gone wrong and managed to turn things around.

The idea for InsureYou's initiative emerged because the company was facing increasing pressure from new and nimble competitors, and the industry was changing fast. Senior leaders knew that to survive, InsureYou would have to devote more attention to customers and respond more quickly to new cases. So they decided to engineer a collaboration between their risk management team (which knew how to calculate and structure risk for all insurance products) and their business line groups (which managed various product categories before and after risk structuring). Specifically, the business line groups would have to learn how to calculate and structure risk themselves in new insurance cases so that they could respond quickly to clients, and the risk management team would have to share its highly prized expertise with the business line groups and provide support.

The plan made sense in the big picture, but it made Risk Management uncomfortable. After all, managing risk was what the group did. That was its reason for being and what it was known for. If others were now being asked to do the same thing, did that mean the company no longer valued Risk Management as a distinct department? In being asked to collaborate, was the group actually being asked to train its replacement?

These were reasonable concerns. Especially in industries experiencing disruption, skilled workers have good reason to fear that their skills are becoming obsolete and that changes to the status quo mean that they and their departments have become less valuable to the company. So it's natural for groups to feel that requests for collaboration threaten their security—even when that's not the intent.

A Sense of Security

In my work, I've found that groups define and develop their sense of security along three main dimensions: identity, legitimacy, and control. Any leader who wants to encourage effective cross-group collaboration first needs to understand why groups care so much about these dimensions and how they feed into a sense of security.

Group identity, simply put, is what a group understands itself to be. It's existential. To know what you stand for and to do your job as a group, you have to know what you are. Identity provides groups with a center of gravity and meaning in the company, which help build a sense of security. *Group legitimacy* develops when a group's existence is perceived by others as fitting and acceptable within the company, and the group is perceived to be of value. *Control* over what you do as a group is vital, too. It's not enough just to know what you are as a group and to feel that the company accepts and affirms your existence. You also have to be able to act autonomously, determine the terms on which you work, and effect meaningful change.

Identity, legitimacy, and control represent distinct sources of group security, but they overlap in one very important respect: They almost always require that groups "own" territory—such as areas of responsibility, resources, or even reputation. Owning territory provides a way for groups to define and differentiate themselves; it is a proxy for the acceptability and value of a group; and it ensures that groups have the autonomy and decision rights they need to carry out their work.

None of this is hard to recognize—if you remember to look for it. But leaders often forget. That's what happened at InsureYou. When presented with the demands of the collaboration, Risk Management felt threatened. So it dug in. Business line groups claimed that Risk Management was responding to requests for training either very slowly or not at all. Risk Management, for its part, complained that the business line groups were "making too many mistakes" and "making more work for us." As a result, the company needed more rather than less time to process new cases.

The groups at InsureYou deserve some of the blame for the collaboration's having stalled, of course. But ultimately the fault lies with the company's leaders. Instead of pausing to consider how the proposed initiative might threaten the security of the groups involved, they rushed into planning and implementation, and the result was not collaboration but countercollaboration.

The lesson here is fundamental: Leaders who want to get a collaboration off the ground need to start by doing a threat assessment. How might the collaboration be unsettling to the groups involved? What's the best way to dissipate that sense of threat?

THREAT WARNINGS

During cross-group collaborations, look for frequent occurrences of territorial behaviors, which suggest that groups are feeling threatened by what you've asked them to do. These might include:

Overt territorial assertions,

such as that one's own group is in charge or that the other group's opinion doesn't matter

Overt attacks on others,

such as publicly criticizing another group's operations or processes

Power plays,

such as calling a high-profile "summit" to discuss a topic but excluding the other group from the invitation

Covert blocking behaviors,

such as dumping so much data on another group, in such a complicated form, that the other group can neither understand nor do anything with it

Covert manipulations of boundaries,

such as framing or subtly shaping perceptions about the expertise of one's group as being either very different from the other group's (to strengthen boundaries) or very similar (to weaken boundaries, which makes "attacks" on the other group easier)

Minimize the Resistance

If you're hoping to launch a cross-group collaboration, first work to identify and minimize whatever resistance the initiative is likely to engender. You should do this along all three of the dimensions we've just discussed.

Reinforce identity. You can diagnose threats to a group's identity by taking two steps. First, gain clarity on how each of the involved groups perceives itself. What is each group proud of? What differentiates it from others? How would members describe themselves to their primary stakeholders in the company? To customers? With those perceptions in mind, consider how the critical elements of the collaboration might threaten the group's identity. What are the main tasks? How will existing processes change, and how will resources be used differently? Will these new ways of working dilute or detract from the group's identity?

I've worked with leaders who have successfully addressed this threat by granting groups greater ownership over other areas that are closely associated with the group's identity (even if those areas aren't related to the initiative) and then making the group's association with those areas explicit. Some of these leaders have also strengthened or affirmed groups' sense of identity with symbolic activities and objects, such as group activities, training, and even physical decor. Little things matter. You can also minimize threats to identity by publicly acknowledging the critical roles that a group has always played in areas fundamental to its identity.

Reaffirm legitimacy. A two-step process can be effective here, too. First, consider the big picture. Why was this group created, and what does the company feel are its most valuable contributions? With answers to those questions in mind, think again about the critical tasks—and credit—to be shared during the collaboration. Do any align with the group's reason for being or its most valuable contributions?

If so, you've got a threat to legitimacy, and you will need to address it. One important way to do this is by publicly acknowledging the group's importance and its differentiated value in the company. You'll want to repeat this message, especially during the early months of the collaboration, and to back it up with support and continued recognition for the teams involved.

Identity and legitimacy threats became a problem when a collaboration was proposed at a global construction firm I'll call ConstructionX. Confronting an industrywide decline in sales, the company's leaders decided to try to expand their market by boosting demand for alternative uses of their products and services. To make this plan work, they crafted an unprecedented collaboration between their sales team (which could understand and influence demand) and their innovation engineering team (which could imagine new uses for existing products). The basic idea was this: Sales would identify clients who might be interested in alternative uses, and then a member of Innovation Engineering would accompany Sales on client visits to probe and pitch those uses. The team member from Innovation Engineering would later follow up directly with the clients, and if they showed further interest, somebody from Sales would be brought back in to the conversation to close the deal.

It was a nice idea in theory, but in practice it didn't play out so well. Sales identified very few clients for Innovation Engineering to meet with, and in the rare cases when it did meet with clients, Innovation Engineering reported that Sales offered little opportunity to actually make a pitch. Not that Innovation Engineering wanted to do that anyway; team members felt they could best contribute to the company by generating ideas, not selling them. They so cherished that view of themselves that they used it to define not only their team identity but also the team's value within the company. Sales, for its part, saw its role as being the sole bridge between the company and demanding clients. The new process called all that into question. Not surprisingly, both groups resisted the collaboration.

Fortunately, the leaders at ConstructionX recognized that they were dealing with threats to the identity and legitimacy of the two groups in the collaboration, and they moved quickly to address those threats. They convened a joint meeting in which they publicly acknowledged the critical role that Sales had always played in developing and guiding client relationships, and they made clear that they expected the group to continue in this role during the collaboration. At the same time, they acknowledged the critical role Innovation Engineering had always played in generating practical ideas for the company, and they made

clear that the engineers' role during sales visits was ultimately not to make sales but to do on-the-ground research for industry-leading innovation. Simply hearing all this enhanced each group's sense of security.

The meeting marked a turning point for the collaboration. Sales began allocating more effort to examining its client rosters, and Innovation Engineering began to engage more fully when finally invited to client meetings. This was enough to get the ball rolling. For their part, leaders of ConstructionX knew that "lip service is cheap" and took care to continue supporting and nurturing the collaboration, repeating and reinforcing the ownership both groups had over the initiative and their identities and legitimacy.

Reassert control. To gauge whether a collaborative initiative threatens a group's sense of control, identify the major areas in which the group has autonomy and decision rights. For example, ask: What broad topics, processes, equipment, and decisions is this group responsible for? These are your "landmark" categories. Now consider the collaboration. Which topics, processes, equipment, and decisions will require shared, uncertain, or ambiguous control, and how do they map onto the landmark categories you've just identified?

If you find a partial or full overlap, you're probably dealing with a control threat. One way to address this is to find other areas (even if separate from the target initiative) in which you can increase the group's control and autonomy. At ConstructionX, the leaders recognized that Innovation Engineering was feeling a loss of control because of the unpredictable amount of time and resources that others were deciding its team members had to put into sales-like activities. To solve that problem, the leaders granted the group greater autonomy on a separate project that focused solely on innovation. It was still expected to take part in client visits and help craft alternative products, but now, with more control over this other innovation project, it felt less threatened by the collaboration and took part much more willingly. Sales and Innovation Engineering learned to trust the initiative and its consequences for their territories and sense of security.

Check Your Blind Spot

As we've discussed, in their rush to attend to matters of process, incentives, and outcomes, leaders often forget to consider how demands for collaboration can threaten groups' sense of security and trigger defensive behaviors. That's what happened at EnerPac when it tried to launch the after-sales offering between Sales and Service. Both groups felt that their territory was being encroached on, and the collaboration ground to a halt.
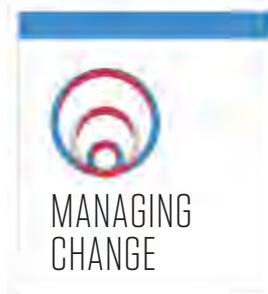
InsureYou initially made the same mistake, but the company's initiative ultimately succeeded because a senior leader recognized that the risk management group felt threatened. The leader knew the collaboration would require Risk Management to give up some of its core territory to business line groups. There was no getting around that. So he made that clear—but he also addressed the threats to Risk Management's sense of security. He emphasized in public and private settings that Risk Management would now be formally responsible for teaching and managing risk management activities across groups. In doing so, he redefined its territory in a way that reinforced its identity, legitimacy, and control. The group was still valued for risk management even if it wasn't necessarily doing all the work itself.

It was a savvy move. Seemingly overnight, Risk Management staffers stopped resisting and embraced the collaboration. No longer feeling threatened, they began responding more quickly to requests, providing more-thorough guidance, and even suggesting additional ways that they could support the initiative. As a member of one of the business line groups put it, "They suddenly felt like colleagues, even advisers, rather than a brick wall."

So don't lose heart if your cross-group initiatives stall, because remedies are available. As I've learned in my work, collaborations can be successfully revived by first identifying threats to group security, and then by taking steps to minimize those threats and discourage defensive behaviors.

Checking your blind spot ahead of time is an even better option. The key is *remembering* to check it. And to that end, here's an analogy that might be helpful. If you want to change lanes safely while driving on the highway, you can't just look straight ahead, put your foot on the gas, and swerve. You first have to look in your rearview mirror and take in the threats around you. Only then should you make your move. ⦿

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INNOVATION

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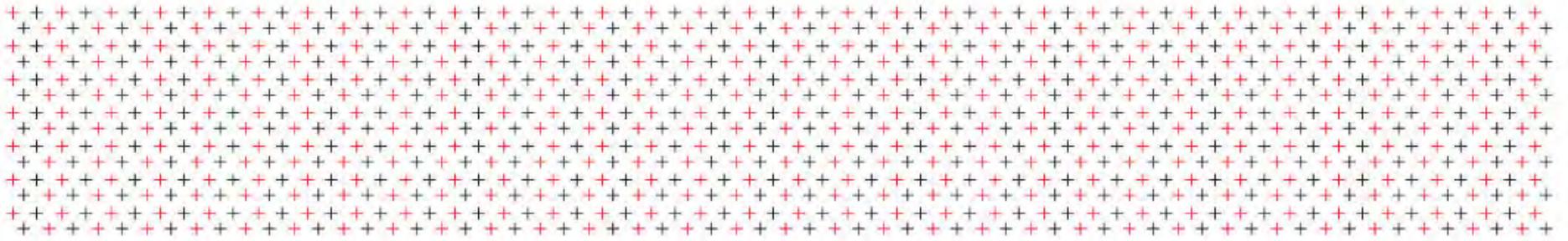
Innovation Equation

THE MOST IMPORTANT VARIABLES ARE STRUCTURAL, NOT CULTURAL.

Safi Bahcall
Physicist and entrepreneur

fig. 3
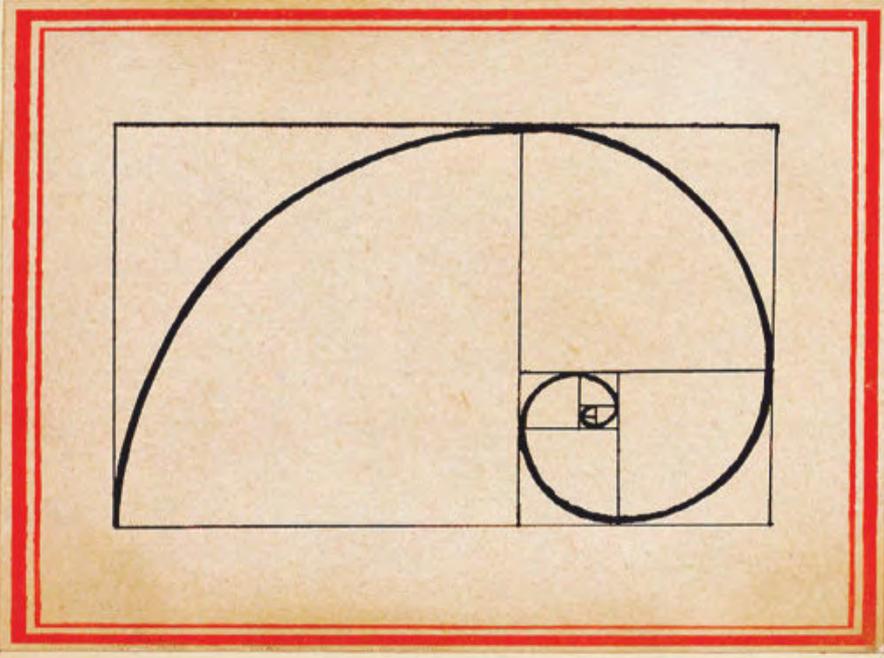
Nautilus

$$\phi = \lim_{n \to \infty} \frac{F_n}{F_{n-1}}$$

Idea in Brief

THE PROBLEM

As start-ups grow into larger, more bureaucratic companies, they're more likely to favor safe, incremental, innovation over riskier, potentially groundbreaking work.

THE SOLUTION

Leaders often point to their culture as the key to driving innovation in their organizations. But structural levers can also help growing companies avoid the shift from truly innovative to incrementally so. These include the extent to which compensation reflects the outcome of projects as opposed to rank within the organization; ratio of project-skill fit (how suited employees are to the tasks they're assigned) to return on politics (the benefits accrued by networking and politicking); management span (the number of direct reports per leader); and salary step-up (the financial benefits of rising in the hierarchy).

When I first became a CEO,

at age 33, I read everything I could find about legendary business leaders and the companies they created. I was trying to discover the secret to building an innovative organization that would empower employees, deliver on our bold mission to develop a new cancer drug, and reward stakeholders. The answer, according to many, was corporate culture:

"The good thing about [our] culture is that nine times out of 10, people are going to say, 'Hey, let's try it. Let's see where it goes.'"

"You're allowed to have a bit of fun, to think unlike the norm…to make a mistake."

"We've been able to build such a strong brand and global presence…because we really built…an amazing culture."

Unfortunately, those quotes came from the CEOs of GE, Nokia, and RIM (BlackBerry) shortly before the market value of their firms plummeted, collectively, by half a trillion dollars. The companies were exploratory, "fun," tolerant of mistakes, and capable of fostering groundbreaking work—until they weren't.

Management theories that focus on culture have always felt squishy to me. As a physicist, I was looking for some harder science. How could these companies so quickly shift from nurturing "crazy" projects—the "loonshots" that transform industries—to rejecting important innovations? Why would good teams, with excellent people and the best intentions, kill great ideas? It reminded me of what scientists call a *phase transition*: a sudden change in the collective behavior of the many interacting parts of a system. In the case of water, for example, the shift happens at 32 degrees Fahrenheit; the molecules stop roaming freely (liquid) and instead lock rigidly in place (ice). Over the past decade, scientists have applied this principle to help us understand how birds flock, brains work, people vote, traffic flows, markets behave, ideas spread, diseases erupt, and ecosystems collapse. Over the past few years, I've built a model that applies phase-transition science to help us understand how organizations change.

The model draws on my experience in different workplaces (from a global consulting firm to a two-person start-up that grew into a publicly traded company) along with research into other organizations. It shows that there is a certain size at which human groups shift from embracing radical ideas to quashing them. Let's call this the magic number M.

The model shows us more: This transition point is not fixed. It is a function of two competing forces, the relative strength of which can be adjusted through variables we call *control parameters*. In water, this tug-of-war is between binding forces (which favor rigidity) and entropy (which favors sloshing around). The system usually snaps at 32 degrees, but when

fig. 2

$$\phi = \frac{1 + \sqrt{5}}{2}$$

Apple

$$\frac{AC}{AB} = \frac{AB}{BC} = \frac{BC}{BD} = \phi$$
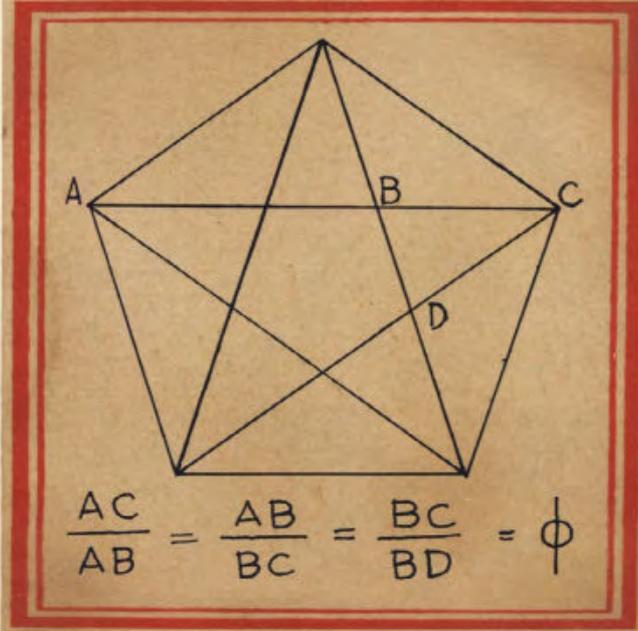
you introduce another element, such as salt, the freezing point shifts to a lower temperature. In organizations, the competing forces can be described as "stake in outcome" versus "perks of rank." When employees feel they have more to gain from the group's collective output, that's where they invest their energy. When they feel their greatest rewards come from moving up the corporate ladder, they stop taking chances on risky new ideas whose failure could harm their careers.

Leaders can tip the balance and raise the value of M—ensuring that radical innovation continues in even the largest company—by tweaking four key control parameters. They are equity fraction (E), fitness ratio (F), management span (S), and salary growth (G). Note that none of these are elements of "culture." They are better described as elements of structure: organization design. As the equation below illustrates, a higher M results from increasing $E, S,$ and F (the parameters in the numerator), and decreasing G (the denominator).

$$M = \frac{(E \times S^2 \times F)}{G}$$

Let's look at how the four parameters work in practice.

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The Four Control Parameters

Imagine that you're a designer at a medical device company, and your job is to develop a better pacemaker. It's 4 PM, and you need to decide how you'll spend the final hour of the workday. Should you experiment a little more with your design, or should you use the time to network, currying favor with your boss or other influential managers? In other words, should you focus on project work or on politics?

Such daily choices, faced by pacemaker designers and midlevel workers of all kinds, are what really determine the level of innovation at a company—not cultural changes instituted from the top. Loonshots, the building blocks of innovation, are fragile and need broad support; one table-pounding champion cannot take an idea to market. Prototypes must be designed and built, market segments need to be identified, field tests need to be conducted, and so on. In order for "crazy" ideas to turn into successful products, people across the organization need to be incentivized to invest their time in moving projects—not themselves—forward.

Here's how each control parameter affects behavior:

Equity fraction. This variable represents the extent to which incentives reflect the outcome of projects as opposed to rank within the organization. Equity fraction ties your pay directly to the quality of your work. If you create a revolutionary pacemaker, the company will probably sell a lot of them, and the value of your equity will grow. Equity comes in two forms, hard and soft. Hard equity includes stock options, grants, commissions, bonuses, and so on. Investment funds pay portfolio managers a percentage of risk-adjusted returns, for example, and professional services firms compensate partners on the basis of the client revenues they bring in. The Chinese appliance maker Haier keeps base salaries low and pays its customer-facing small business units according to their customer sales.

Soft equity—nonfinancial stakes, such as peer recognition—counts, too. If your pacemaker design could be submitted for an industry award, you have a soft equity stake in the success of your project. At Wolfram Research, a computer language and data science company, CEO Stephen Wolfram raises the soft equity stakes by live-streaming programming sessions and development meetings with clients. This creates immediate visibility and accountability between engineers and their core customers.

Whether your equity stake is hard or soft, the higher the fraction, the more likely you are to spend that extra hour on project work rather than on politics.

Fitness ratio. This parameter involves the relationship between project-skill fit (PSF) and return on politics (ROP): F = PSF/ROP. Economists would call this a ratio between two marginal returns. The numerator is a measure of the rewards from investing time in your project. The denominator is a measure of the rewards from investing in politics.

Suppose you are a highly skilled medical-device designer. An extra hour per day invested in working on your pacemaker might double or triple its value; you might even create a design that will outsell every other one in the industry. The excellent fit between your skills and your project (high PSF) would tip you in favor of spending more time working on it. There would be no need for schmoozing; your triumph would speak for itself. Suppose, on the other hand, that you're not well suited to the projects to which you've been assigned (a low PSF). Your design skills are lousy, and one more hour wouldn't help much. You might as well invest that hour in politics; it might be the best or the only way for you to win a promotion.

In some cases, a poor project fit results from an undermatch: An employee's skills and experience are not up to the task. But an overmatch—skills so far above project needs that the employee is contributing only a fraction of what he or she could offer—is also a problem. Imagine a young Elon Musk assigned to the pacemaker. The project wouldn't offer

much of a challenge, and he'd have plenty of time to start politicking. An organization achieves high project-skill fit when all its employees are stretched neither too much nor too little by their roles.

Return on politics, the denominator in the fitness ratio, is a factor that every employee feels even though it is difficult to measure. It's the extent to which lobbying, networking, and self-promoting affect promotion decisions. This will vary from team to team, but every company will have an average level. Consider two global manufacturers, Company A and Company B. Each has a California office with three vice presidents and 30 product designers. In both firms, a spot opens up for a fourth VP; one of the 30 designers will be selected. Company A is like most firms: The local office will decide who gets promoted. Throughout the decision-making process—which will take nearly a year—those 30 designers will compete to curry favor with the VPs. The return on politics is high. At Company B, however, an independent evaluator who has no ties to anyone in the California office will conduct an assessment and present the findings to an independent group of executives who will make the decision. Since there's little benefit to lobbying, designers at Company B will be likely to focus on their projects and on collaborating well. The return on politics is much lower.

Management span. Sometimes called span of control, this refers to the average number of direct reports that executives of the company have. The question of what the "best" management span is has been debated in the organizational literature for years. To see how this parameter affects innovation, imagine that you work at a 1,000-person company with an average management span of two. That means there are 10 levels in the hierarchy (the CEO has two direct reports; those two managers have two reports; those four managers each have two, and so on). When organizations have many layers—that is, a narrow span—promotions are on everyone's mind, "tempting researchers to worry more about titles and status than problem solving," as the internet pioneer Bob Taylor once noted. Now think of the same company with an average management span of 32. In this case, there's only one management layer between the CEO and the people doing the real work. Promotions occur so rarely that no one thinks about them; instead they focus on their work. The large group of equal-level colleagues provides "a

continuous form of peer review," Taylor said. "Projects that are exciting and challenging obtain more than financial or administrative support; they receive help and participation from other…researchers. As a result, quality work flourishes; less interesting work tends to wither."

Narrow spans aren't inherently worse than wide ones. Narrow is better if you want low error rates and high operational excellence. Wider spans and looser controls are better for experimenting and developing loonshots and new technologies.

Salary growth. The average step-up in base salary (and other executive perks) that employees receive as they ascend the hierarchy is another important factor. Again, envision yourself as the pacemaker designer and consider how salary growth might affect your decisions. If every promotion at your company comes with a whopping 200% increase in salary, you'd want to make sure that every influential person knows exactly who you are and why you and not your colleague down the hall should be promoted. If, however, promotions yield only a meager 2% pay raise, you might as well pour your energy into your project, where some extra effort could earn you a bigger bonus or increase the value of your stake in the company's success. Low salary step-up rates encourage people to use the last hour of the day on work, not on politicking. Recent academic studies have come to a similar conclusion. One noted that "increased [wage] dispersion is associated with lower productivity, less cooperation, and increased turnover."

Putting It All Together

There are many ways companies can adjust the control parameters to increase M and enhance innovation. Here are a few:

Celebrate results, not rank. To increase the equity fraction and lower the salary growth rate, management must structure rewards to be based more on results than on level in the hierarchy. Most companies today do the opposite: Not only have base salary step-up rates been rising in the United States, bonus opportunities at junior levels are tiny or nonexistent (10% or less of base salary). Bonus fractions at senior levels, by contrast, can be upwards of 50%. Celebrating results rather than rank means changing compensation

fig. 1

Pinecone

$$[2 - \phi] \times 360° \cong 137.51°$$
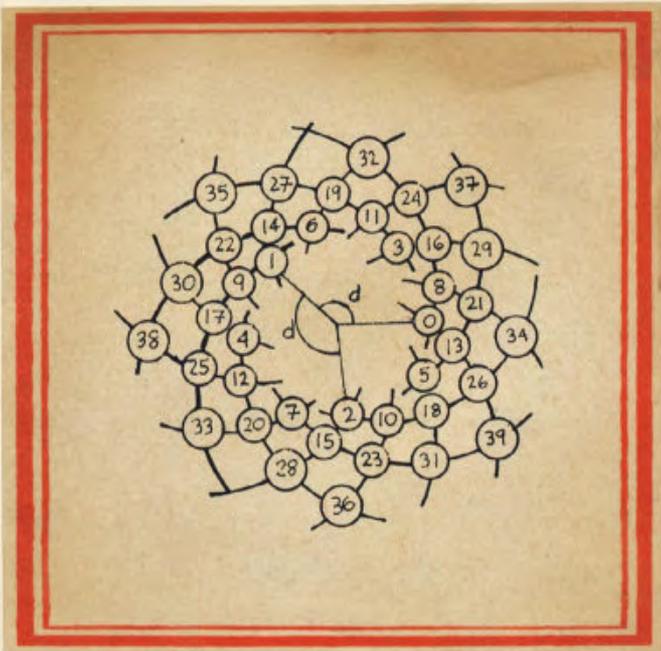
practices—and eliminating (or toning down) widely visible perks of rank such as luxury executive retreats, special cafeterias, favored parking spots, and so on.

Use soft equity. Many studies have shown that different people are motivated by different things. To some, tangible financial rewards are most important. Others are driven by peer recognition or the desire to help others, or by intrinsic motivators such as a sense of accomplishment and personal growth. Companies should identify and use all the means at their disposal—nonfinancial in addition to financial—to increase employees' stakes in the success of their projects.

Take politics out of the equation. Employees need to see that lobbying for pay and promotions will not help them. One way to do this is to have those decisions depend less on an employee's manager and more on impartial assessments by neutral parties. When promotions are considered at McKinsey, for example, a partner from a different office and preferably a different functional practice interviews candidates' colleagues and clients and then reports back to a group of partners who make the decision. Google uses a similar process. As former HR chief Laszlo Block explains, new managers "are dumbfounded that they can't unilaterally promote those whom they believe to be their best people." The time and expense involved in creating such a system is significant, but it is a worthwhile investment in organizational fitness.

Invest in training. Companies usually invest in training employees with the goal of better products or higher sales. Send a device designer to a technical workshop, and you'll probably get better pacemakers. Send a salesperson to a speaking coach, and his pitch delivery might improve. But there's another benefit: A designer who has learned new techniques will want to practice them. Training encourages employees to spend more time on projects, which reduces time spent on lobbying and networking.

Perfect employee placement. Designate a person or a small central team to regularly scan the organization for project-skill fit, ensuring that everyone, from new hires to old-timers, is in the right job at the right time. The person or team making assignments should be separate from any particular function to ensure a broad view of the organization. The head of product development, for example, may not be the best person to judge whether a struggling device designer might actually make a great sales rep.

Fine-tune the spans. Companies should widen management spans and design looser controls for groups in which radical innovation is the goal. Those structures encourage experimentation, peer-to-peer problem solving, and engagement in project work. Google's former head of engineering, Bill Coughran, once had 180 direct reports.

Appoint a chief incentives officer. Organizations need top-level executives who are well trained in the subtleties of aligning incentives and solely focused on achieving a state-of-the-art compensation system. A good incentives officer can identify wasteful bonuses (such as blanket stock options and bonuses based on companywide, rather than group or individual, performance), reduce the risks of perverse incentives (for example, when an auto dealer's sales goals for service reps lead to overcharging customers), and tap thoughtfully into the power of nonfinancial rewards (peer recognition, choice of assignments, freedom to work on a passion project, and so on). The goal of achieving the most motivated employees for a given compensation budget is as important and strategic to companies as is the goal of achieving the best sales for a given marketing budget (the province of a chief revenue officer) or the best IT systems for a given technology budget (a chief information officer's terrain).

WE'VE ALL SEEN companies suddenly and mysteriously change. Innovative teams, widely praised for their breakthrough products and vision, begin rejecting the most radical ideas. The people are the same; the culture is the same—yet people suddenly stop taking chances. The bad news is that all organizations are susceptible to such phase transitions. The good news is that just as the freezing point of water can be lowered by introducing elements that favor entropy, key elements of an organization can be managed to foster more-innovative teams even as companies increase in size. Culture still matters, of course, but it's time to pay a little more attention to structure. ◉

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The Right Way to Lead

How to help project teams overcome the inevitable inefficiencies, uncertainties, and emotional flare-ups

Photographs by **YASU+JUNKO**

Design Thinking
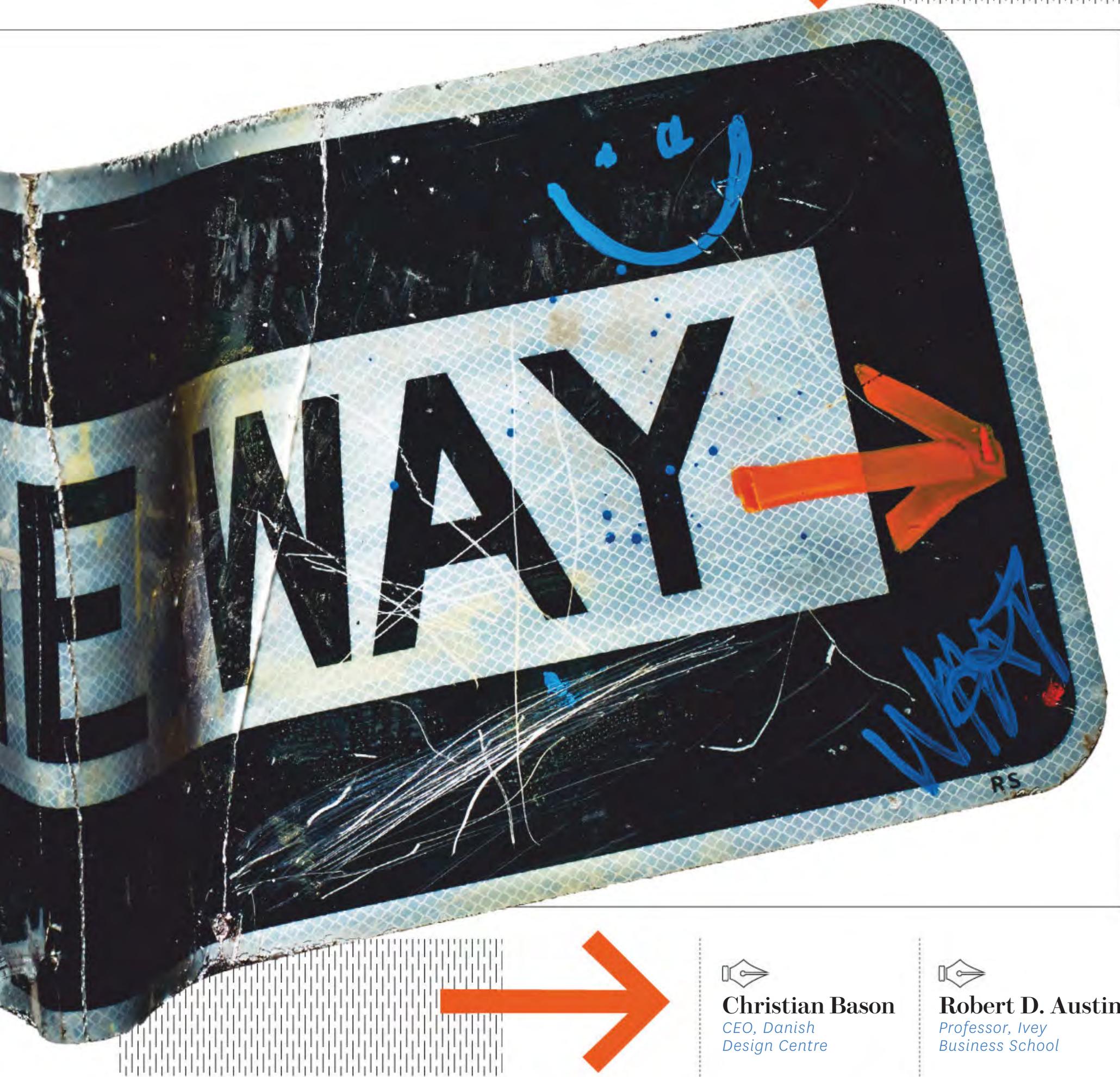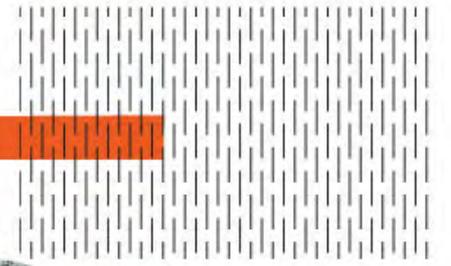
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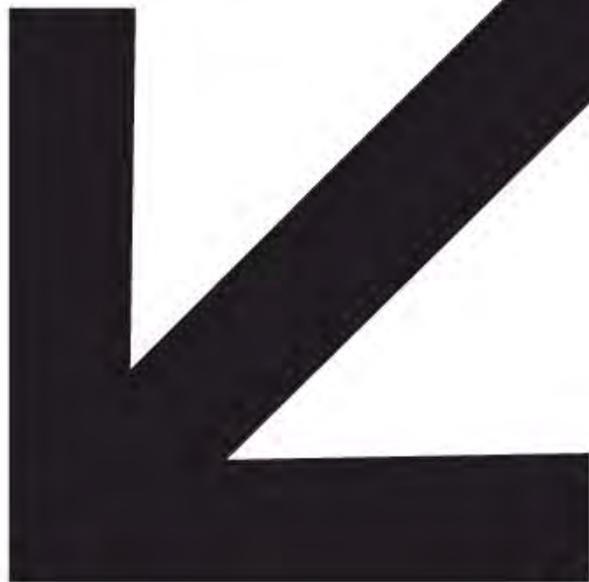
Anne Lind, the head of the national agency in Denmark that evaluates the insurance claims of injured workers and decides on their compensation, had a crisis on her hands. Oddly, it emerged from a project that had seemed to be on a path to success. The project employed design thinking in an effort to improve the services delivered by her organization. The members of her project team immersed themselves in the experiences of clients, establishing rapport and empathizing with them in a bid to see the world through their eyes. The team interviewed and unobtrusively

video-recorded clients as they described their situations and their experiences with the agency's case management. The approach led to a surprising revelation: The agency's processes were designed largely to serve its own wants and needs (to be efficient and to make claims assessment easy for the staff) rather than those of clients, who typically had gone through a traumatic event and were trying to return to a productive normal life.

The feedback was eye-opening and launched a major transformation, Lind told us. But it was also upsetting. Poignantly captured in some of the videos was the fact that many clients felt harmed by the agency's actions. One person half-joked that he would need to be fully healthy to endure the stress of interacting with the agency. (The design team was dismayed to discover that during the claims process, clients received an average of 23 letters from the agency and others, such as hospitals and employers.) Lind's staffers had won productivity awards for the efficiency of their case-management processes and thought of themselves as competent professionals. They were shocked to hear such things from clients.

Lind decided to share the interview videos with employees across the organization, because their expertise and buy-in would be needed to develop solutions. They, too, were shocked and dismayed. Lind worried that many of them were taking it too hard. She wanted them to be

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Idea in Brief

THE CHALLENGE

Design-thinking methods—such as empathizing with users and conducting experiments knowing many will fail—often seem subjective and personal to employees accustomed to being told to be rational and objective.

THE FALLOUT

Employees can be shocked and dismayed by findings, feel like they are spinning their wheels, or find it difficult to shed preconceptions about the product or service they've been providing. Their anxieties may derail the project.

THE REMEDY

Leaders—without being heavy-handed—need to help teams make the space and time for new ideas to emerge and maintain an overall sense of direction and purpose.

Insurance agency staffers had won productivity awards for the efficiency of their case management. They were shocked to hear negative things from clients.
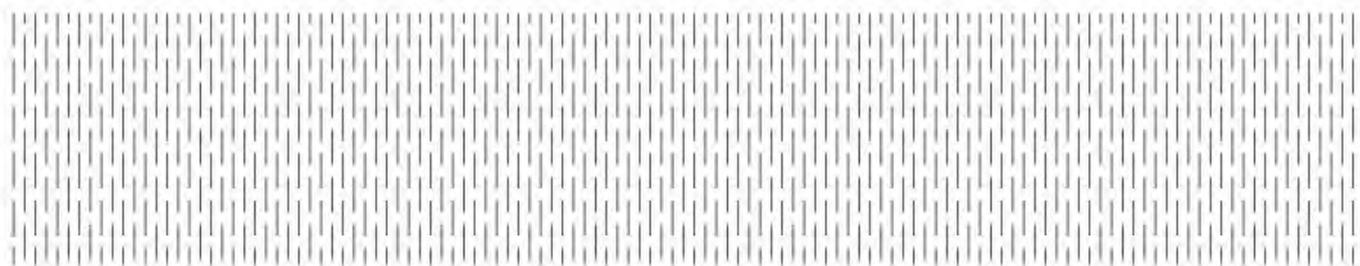
motivated, not disabled. It was a moment that called for leadership. Her organization looked to her to help it process this troubling information and figure out what to do. What she did next would determine whether people rose to the challenge of transforming how they helped clients or sank into demoralized frustration.

Even more than other change-management processes, design thinking requires active and effective leadership to keep efforts on a path to success. Much has been written, in HBR and elsewhere, about how organizations can use design thinking for innovation (see "Design Thinking," HBR, June 2008, and "Design Thinking Comes of Age," HBR, September 2015). Our in-depth study of almost two dozen major projects within large private- and public-sector organizations in five countries suggests that effective leadership is critical to success. We focused not on how individual design-thinking teams did their work but on how the senior executives who commissioned the work interacted with and enabled it.

Typically, leaders sponsored project teams—composed of external consultants or in-house specialized units—that worked with a subset of employees to generate solutions that were eventually implemented more widely, often across the entire organization. In some cases, when change would involve different areas of an organization and the core team lacked expertise in their processes, the project expanded to include people in those areas—an approach that also helped secure their buy-in. In most cases the leaders who commissioned these projects had no prior experience with design thinking. Although some were involved more directly than others, all were looking to the approach to help them achieve their strategic objectives.
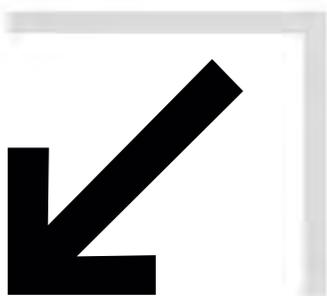
Why Strong Leadership Is Crucial

"DESIGN THINKING" can mean different things, but it usually describes processes, methods, and tools for creating human-centered products, services, solutions, and experiences. It involves establishing a personal connection with the people—or users—for whom a solution is being developed. Designers seek a deep understanding of users' conditions, situations, and needs by endeavoring to see the world through their eyes and capture the essence of their experiences. The focus is on achieving connection, even intimacy, with users.

But to employees long accustomed to being told to be rational and objective, such methods can seem subjective and overly personal. Of course, businesses want to understand their customers—but design-thinking connections with customers can feel uncomfortably emotive and sometimes overwhelmingly affecting.

The challenges don't end there. Another potentially unsettling aspect of design-thinking methods is their reliance on divergent thinking. They ask employees to not race to the finish line or converge on an answer as quickly as possible but to expand the number of options—to go sideways for a while rather than forward. That can be difficult for people accustomed to valuing a clear direction, cost savings, efficiency, and so on. It can feel like "spinning wheels"—which in a way it is.

As if that were not enough, design-thinking approaches call on employees to repeatedly experience something they have historically tried to avoid: failure. The iterative prototyping and testing involved in these methods work best when they produce lots of negative results—outcomes that show what *doesn't* work. But piling up seemingly unsuccessful outcomes is uncomfortable for most people.

Enduring the discomfort of design thinking is worth it, because great new possibilities for change, improvement, and innovation can result. The truth is that the same aspects of design-thinking methods that make them difficult for employees to handle are also the source of their power.

Consequently, employees who are unfamiliar with design thinking (usually the majority) need the guidance and support of leaders to navigate the unfamiliar landscape and productively channel their reactions to the approach. Our research has identified three categories of practice that executives can use to lead design-thinking projects to success: leveraging empathy, encouraging divergence and navigating ambiguity, and rehearsing new futures.

> Design-thinking approaches call on employees to repeatedly experience something they have historically tried to avoid: failure.
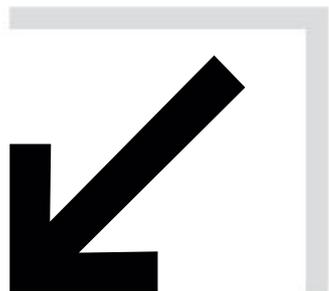
Leveraging Empathy

IN THE EARLY PHASES of a design-thinking process, employees working on a project need to set aside their preconceptions about the product or service they are offering. Leaders can help them do this by endorsing the process, which uses information about customers to evoke empathy in employees and get them to question how their actions affect customers. Our research shows, however, that leaders must do more than back the process. They also need to support employees who are dealing with distressing emotions that arise when the effectiveness of their work is questioned. Unexpected findings can generate defensiveness and fear, interfering with empathy and undermining motivation.

Lind understood that she had to turn the revelation about clients' experiences with her agency from a morale buster into a positive force for change. That meant getting employees to focus on customers rather than themselves. She accomplished that by involving people across the organization in interpreting findings from the early stages of the design-thinking project and then assigning mid-level managers to orchestrate idea-generation exercises in their units. One group came up with the notion of making the case-management process easier for clients to navigate by posting a visualization of it on the agency's website. Another group suggested a "Got Questions?" hotline on which clients could easily obtain help. In effect, Lind motivated people to think in terms of steps that individually might not solve the whole problem or be a final solution but would move things in the right direction.

Consider also a design-thinking project led by Mette Rosendal Darmer, the head nurse at Denmark's National Hospital. Interviews conducted by her project team suggested that patients felt confused, worried, fearful, and sometimes humiliated while going through the hospital's heart clinic processes. Darmer shared the feedback with the nearly 40 doctors, nurses, and administrative staffers who played major roles in the clinic's work. Those employees, whose help Darmer knew she would need to develop ideas for addressing patients' concerns, were taken aback: They thought of themselves as delivering services that restored patients to healthy lives. Darmer intended the effect: "What I wanted was to disturb them," she told us. But she did not stop at surfacing the disconnect; she also suggested practical ways of framing the new realizations to make them a powerful impetus for organizational and process change.

The reframing that ultimately proved most useful called on staff members to ask themselves, "What if the patient's time were viewed as more important than the doctor's?" This shift in perspective led to the achievable goal of optimizing the patient's journey, which guided the eventual process redesign. But Darmer had to actively legitimize the shift; her staffers were concerned that ceasing to optimize efficiency would be unwelcome, because it might increase costs. She assured them that the clinic supported the goal of putting patients first. And in the end, costs didn't rise, because improving the patient experience led to a 50% reduction in overnight stays.

The takeaway from both cases: Leaders need to push employees to open up but then be supportive about how they feel afterward—to help them get on a positive path and not brood or act defensive when confronted with deficiencies in existing practices. They need to frame the findings as opportunities for redesign and improvement rather than as performance problems.

The leaders we studied worked hard to illuminate users' real needs, even if the process initially struck employees as pointless or the findings made them uncomfortable. Poula Sangill, the leader of an organization that delivers prepared meals to senior citizens in the municipality of Holstebro, Denmark, was somewhat atypical of the leaders in our study, because she took a direct role in leading the design-thinking process. When she first proposed an improvement project, the appointed team of mid-level managers became extremely defensive and resistant to the notion that change was possible: They complained about how little time was allocated for food services (10 minutes per delivery) and insisted that nothing could be done in such a short time. In response, Sangill ran them through a

> It's up to leaders to help their people resist the urge to converge quickly on a solution without feeling they lack direction.

step-by-step role play of the process to look for opportunities to improve even within the time constraints. Eventually her team began to offer ideas.

The leaders we studied also pushed their employees to go beyond their accustomed reliance on statistics to get close to what users were experiencing and how they felt about it. Employees were rarely familiar with the ethnographic methods used in design thinking. Leaders had to de-emphasize traditional consulting studies and instead arrange circumstances—guided by design-thinking experts—that put employees into user situations. For example, when the New York City Department of Housing Preservation and Development was working on new offerings, leaders arranged for employees to spend weeks in the field interacting with people who lived in rent-controlled properties in Manhattan. The goal was to help them understand renters' daily lives. Through observational studies and interviews employees could identify and experience firsthand the services that really mattered to residents and how offerings might be reconceived.

Leaders encouraged project teams to gather and later present their data to other employees in evocative formats, such as audio recordings or videos of people in their own contexts, rather than in the dry tables and graphs commonly used in the past. Gathering information in such forms achieves several purposes: It ensures that employees gain a deep understanding of users' circumstances. It provides a way of communicating those circumstances powerfully to others. And, if well handled by the leader, it delivers an emotional payload to motivate and generate change. To remember why change is needed, one has only to go back and listen to the voices in the recordings.
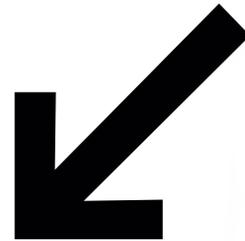
Encouraging Divergence and Navigating Ambiguity

THE EXEMPLARY LEADERS we observed ensured that their design-thinking project teams made the space and time for diverse new ideas to emerge and also maintained an overall sense of direction and purpose. It's up to leaders to help their people resist the urge to converge quickly on a solution without feeling they lack direction.

The deputy dean of Stenhus High School, in Holbaek, Denmark, asked a team of nine teachers to come up with suggestions for transforming a program. After they set to work, the dean deliberately broke from her usual practice of closely scrutinizing progress, frequently requesting updates, and pressuring the team to complete the project quickly. Team members reported being baffled when expected management interventions failed to occur and they were repeatedly sent back to come up with more ideas. "You really didn't try to control us," they noted after a sustained period of fruitful ideation. "No, I really didn't," the dean told us. "It was a loss of control, but it was a positive loss of control."

Peter Gadsdon, the head of customer insight and service design for the London borough of Lewisham, arranged to video-record frontline workers' interactions with citizens in the homelessness services unit. This was not normal practice—and citizens' privacy had to be protected. But once it was approved and arranged by Gadsdon, these videos could be used, in accordance with common design-thinking practice, to spark ideas. "The staff interviewed many different people over a period of about three weeks, and just caught lots and lots of footage," Gadsdon told us. One clip showed children of non–English-speaking immigrants translating their parents' conversation with caseworkers. This was counter to the preferred practice of using a professional translator to avoid traumatizing young children by involving them in conversations about complex adult issues such as potential homelessness. After viewing
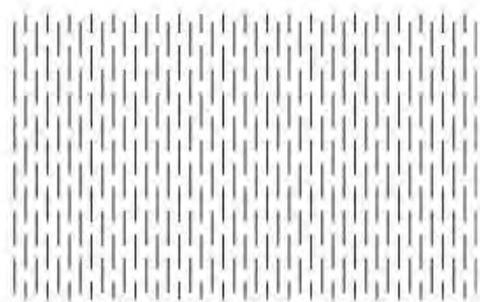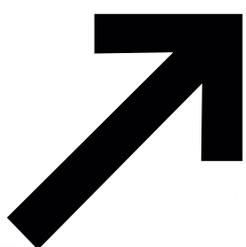
the clip, Gadsdon asked frontline employees, "What might we do to address this kind of problem?" The designers used the films to open up people's minds, he said, adding, "They had lots of ideas."

At Boeing we saw Larry Loftis, then a manufacturing executive at the aerospace giant, insist that process-improvement teams use an approach called the seven ways—identifying at least seven options when brainstorming possible solutions. "The first two or three come very easily," Loftis said, "but then it becomes very difficult to come up with those other solutions. You have to unanchor [from your initial thoughts] and open up your mind."

The aim of divergent thinking is to get beyond easy answers and find options that might be truly innovative. Extreme options are rarely chosen, but they can be stepping-stones to more-practical solutions. "You can get really crazy on some of them, where you know there's no way they're going to happen," Loftis told us. "But then some dialogue takes place around what if you take that idea over to the side a little bit and come up with some new idea that does work."

"Going sideways" for the purpose of generating more ideas than will ever be used and getting to ideas so crazy that they'll never fly makes some people uncomfortable. To goal-oriented people, divergent thinking can seem to generate unnecessary ambiguity about where a project is heading. Leaders need to help those people deal with their insecurities and worries.

That's not always easy, because managers may be experiencing the same feelings. "How do you explain to your staff that you are deploying a methodology you don't fully understand yourself?" a manager who ran business-support services for the city of Helsinki asked us. She had commissioned a design-thinking project to find ways to cut red tape for businesses. The main focus was streamlining the permitting process for outdoor restaurants and entertainment venues, which at the time involved as many as 14 city agencies. She answered her own question by leading by example: She shared her feelings of uncertainty with employees even as she jumped fearlessly into the process, and she communicated clearly that she saw the open-endedness of the new approach as a way of stretching for solutions, not as a lack of direction.
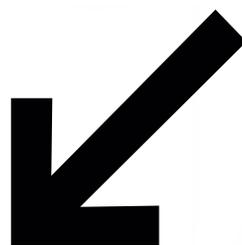
Rehearsing New Futures

A FUNDAMENTAL ELEMENT of design thinking is testing possible solutions with end users, staffers, and other stakeholders in quick-and-dirty ways. Boeing calls this *try storming*—it's like brainstorming, but it goes beyond thinking up ideas to actually carrying them out in some fashion. It might entail building models or making videos of imagined future arrangements. Such tangible artifacts generate conversations that tend to be much more detailed, concrete, and useful than hypothetical discussions are. Leaders should enable this practice by providing time and resources and address skepticism about the value of the work by conveying to employees that "failed" prototypes represent progress. They should clearly spell out what they're trying to achieve and for whom they are trying to achieve it.

Seth Schoenfeld, the founding principal of Olympus Academy, a public high school in Brooklyn, New York, wanted his organization to rethink how it created learning outcomes (for example, how it taught new skills to students). His usual approach was to convene a group of teachers and students to come up with new ideas on the basis of their own experiences. In this instance he was invited to try design thinking as part of an initiative by the New York City Department of Education, which provided advisers and tools, including a video camera. Schoenfeld proposed that the team make a short video depicting a day in the life of an imaginary student in a fully digital and student-centric learning environment. People involved in the project used the video to illustrate new scenarios: teaching materials available online, lessons tailored to each student's abilities and pace of learning, follow-on courses to be instantly available upon completion of previous ones, and so on. The video, in which a student on the team played the main role, provoked rich discussions about the merits of alternative futures for the school. As they talked about the video, the principal and the teaching staff moved closer to understanding how to enact broader,

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visionary objectives, most of which were later realized. Since this was vastly different from their usual way of working, it helped enormously to have support and guidance come from the top.

During her project to redesign the municipal "meals on wheels" service in Holstebro, Poula Sangill asked the design-thinking team to craft a restaurant-style service, which it tested and iteratively developed with actual customers. She also asked the team members to playact various scenarios. At first employees considered the exercise silly. Eventually, though, they found that customer feedback led to ideas that they would not have come up with otherwise. Some of these, such as smaller meals to match smaller appetites, reduced costs, in keeping with an overall objective of the transformation.

Rehearsing the future requires that leaders be specific about what overarching outcomes need to be achieved. In a project aimed at transforming the customer experience, the Norwegian insurance giant Gjensidige prototyped a wide variety of ideas to arrive at three key elements of great customer service: Be friendly and empathetic; solve the customer's problem immediately; and always give customers one piece of advice they didn't expect. Although these principles may sound straightforward, they were close to revolutionary for a financial organization that had traditionally focused on risk management and control. They entailed a shift from viewing customer claims with some skepticism to systematically creating positive customer experiences. Leaders had to communicate to employees that it was OK to make that shift. To be credible, they had to react carefully if a risk was realized—for example, an employee was duped by a false claim—and signal clearly that customer service remained preeminent even when things went wrong. The transformation helped propel Gjensidige to the top in customer service and loyalty rankings among the nearly 100 companies operating in its market (Norway, Denmark, Sweden, and the Baltic states).

In testing solutions, the leaders we studied encouraged a focus on creating value not just for external clients but also for employees (and sometimes other constituencies). This broadened the potential benefits of change and secured the buy-in of multiple groups, producing longer-lasting change.

When the industrial giant Grundfos, a world leader in water-pump technology, began working on a next-generation pump, the design team knew that the control and user interface had to be highly digital. But what would that mean in practice? The natural inclination of the team was to research digital technologies and inquire into customer needs—both essential to the project, of course. But executives insisted that team members think more broadly about the constituencies for whom value would be produced—including the technicians, some of whom might work for other companies, who would be installing the pumps. What was their work context? What were their needs?

LEADERS CAN'T SIMPLY commission design-thinking projects and then step back. They must keep a watchful eye on them and be vigilant in recognizing moments when they need to engage with the team. They must help team members deal with the emotions and discomfort that are inevitable in such endeavors. They must encourage the team to take those all-important exploratory detours while also helping maintain confidence that the initiative is moving forward. At the same time, they must not be too heavy-handed: Teams need to make their own discoveries and realize that they are engaging in a creative process, not just executing management's instructions.

Leaders who commission design-thinking projects must be coaches who inspire their teams to achieve success, hand-holding when necessary but drawing back when a team hits its stride. This role isn't easy. Design thinking is challenging because it involves something more fundamental than just managing change: It involves discovering what kind of change is needed. The managers we studied demonstrated that many leaders can do it. But it takes a deep understanding of the job and an appreciation of the differences between design thinking and other approaches for bringing about organizational transformation. 📋   **HBR Reprint** R1902F

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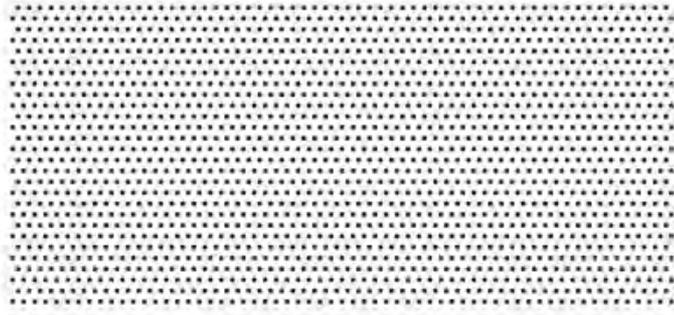
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For years, managers have been encouraged to praise and constructively criticize just about everything their employees do. But there are better ways to help employees thrive and excel.

the feedback fallacy

Idea in Brief

THE CHALLENGE

Managers today are bombarded with calls to give feedback—constantly, directly, and critically. But it turns out that telling people what we think of their performance and how they can do better is not the best way to help them excel and, in fact, can hinder development.

THE REALITY

Research shows that, first, we aren't the reliable raters of other people's performance that we think we are; second, criticism inhibits the brain's ability to learn; and, third, excellence is idiosyncratic, can't be defined in advance, and isn't the opposite of failure. Managers can't "correct" a person's way to excellence.

THE SOLUTION

Managers need to help their team members see what's working, stopping them with a "Yes! That!" and sharing their experience of what the person did well.

The debate about feedback at work isn't new.

Since at least the middle of the last century, the question of how to get employees to improve has generated a good deal of opinion and research. But recently the discussion has taken on new intensity.

The ongoing experiment in "radical transparency" at Bridgewater Associates and the culture at Netflix, which the *Wall Street Journal* recently described as "encouraging harsh feedback" and subjecting workers to "intense and awkward" real-time 360s, are but two examples of the overriding belief that the way to increase performance in companies is through rigorous, frequent, candid, pervasive, and often critical feedback.

How should we give and receive feedback? we wonder. How much, and how often, and using which new app? And, given the hoopla over the approaches of Bridgewater and Netflix, how hard-edged and fearlessly candid should we be? Behind those questions, however, is another question that we're missing, and it's a crucial one. The search for ways to give and receive better feedback assumes that feedback is always useful. But the only reason we're pursuing it is to help people do better. And when we examine *that*—asking, *How can we help each person thrive and excel?*—we find that the answers take us in a different direction.

To be clear, instruction—telling people what steps to follow or what factual knowledge they're lacking—can be truly useful: That's why we have checklists in airplane cockpits and, more recently, in operating rooms. There is indeed a right way for a nurse to give an injection safely, and if you as a novice nurse miss one of the steps, or if you're unaware of critical facts about a patient's condition, then someone should tell you. But the occasions when the actions or knowledge necessary to minimally perform a job can be objectively defined in advance are rare and becoming rarer. What we mean by "feedback" is very different. Feedback is about telling people what we think of their performance and how they should do it better—whether they're giving an effective presentation, leading a team, or creating a strategy. And on that, the research is clear: Telling people what we think of their performance doesn't help them thrive and excel, and telling people how we think they should improve actually *hinders* learning.

Underpinning the current conviction that feedback is an unalloyed good are three theories that we in the business world commonly accept as truths. The first is that other people are more aware than you are of your weaknesses, and that the best way to help you, therefore, is for them to show you what you cannot see for yourself. We can call this our *theory of the source of truth.* You do not realize that your suit is shabby, that your presentation is boring, or that your voice is grating, so it is up to your colleagues to tell you as plainly as possible "where you stand." If they didn't, you would never know, and this would be bad.

The second belief is that the process of learning is like filling up an empty vessel: You lack certain abilities you need to acquire, so your colleagues should teach them to you. We can call this our *theory of learning.* If you're in sales, how can

you possibly close deals if you don't learn the competency of "mirroring and matching" the prospect? If you're a teacher, how can you improve if you don't learn and practice the steps in the latest team-teaching technique or "flipped classroom" format? The thought is that you can't—and that you need feedback to develop the skills you're missing.

And the third belief is that great performance is universal, analyzable, and describable, and that once defined, it can be transferred from one person to another, regardless of who each individual is. Hence you can, with feedback about what excellence looks like, understand where you fall short of this ideal and then strive to remedy your shortcomings. We can call this our *theory of excellence.* If you're a manager, your boss might show you the company's supervisor-behaviors model, hold you up against it, and tell you what you need to do to more closely hew to it. If you aspire to lead, your firm might use a 360-degree feedback tool to measure you against its predefined leadership competencies and then suggest various courses or experiences that will enable you to acquire the competencies that your results indicate you lack.

What these three theories have in common is self-centeredness: They take our own expertise and what we are sure is our colleagues' inexpertise as givens; they assume that my way is necessarily your way. But as it turns out, in extrapolating from what creates our own performance to what might create performance in others, we overreach.

Research reveals that none of these theories is true. The more we depend on them, and the more technology we base on them, the *less* learning and productivity we will get from others. To understand why and to see the path to a more effective way of improving performance, let's look more closely at each theory in turn.

The Source of Truth

The first problem with feedback is that humans are unreliable raters of other humans. Over the past 40 years psychometricians have shown in study after study that people don't have the objectivity to hold in their heads a stable definition of an abstract quality, such as *business acumen* or *assertiveness,* and then accurately evaluate someone else on it. Our evaluations are deeply colored by our own understanding of what we're rating others on, our own sense of what good looks like for a

particular competency, our harshness or leniency as raters, and our own inherent and unconscious biases. This phenomenon is called the *idiosyncratic rater effect,* and it's large (more than half of your rating of someone else reflects your characteristics, not hers) and resilient (no training can lessen it). In other words, the research shows that feedback is more distortion than truth.

This is why, despite all the training available on how to *receive* feedback, it's such hard work: Recipients have to struggle through this forest of distortion in search of something that they recognize as themselves.

And because your feedback to others is always more you than them, it leads to systematic error, which is magnified when ratings are considered in aggregate. There are only two sorts of measurement error in the world: *random* error, which you can reduce by averaging many readings; and *systematic* error, which you can't. Unfortunately, we all seem to have left math class remembering the former and not the latter. We've built all our performance and leadership feedback tools as though assessment errors are random, and they're not. They're systematic.

Consider color blindness. If we ask a color-blind person to rate the redness of a particular rose, we won't trust his feedback—we know that he is incapable of seeing, let alone "rating," red. His error isn't random; it's predictable and explainable, and it stems from a flaw in his measurement system; hence, it's systematic. If we then decide to ask seven more color-blind people to rate the redness of our rose, their errors will be equally systematic, and averaging their ratings won't get us any closer to determining the actual redness of the rose. In fact, it's worse than this. Adding up all the inaccurate redness ratings—"gray," "pretty gray," "whitish gray," "muddy brown," and so on—and averaging them leads us *further away* both from learning anything reliable about the individuals' personal experiences of the rose and from the actual truth of how red our rose really is.

What the research has revealed is that we're all color-blind when it comes to abstract attributes, such as *strategic thinking, potential,* and *political savvy.* Our inability to rate others on them is predictable and explainable—it is systematic. We cannot remove the error by adding more data inputs and averaging them out, and doing that actually makes the error bigger.

Worse still, although science has long since proven that we are color-blind, in the business world we assume we're clear-eyed. Deep down we don't think we make very many errors at all. We think we're reliable raters of others. We think we're a source of truth. We aren't. We're a source of error.

When a feedback instrument surveys eight colleagues about your business acumen, your score of 3.79 is far greater a distortion than if it simply surveyed one person about you—the 3.79 number is *all* noise, no signal. Given that (a) we're starting to see more of this sort of data-based feedback, (b) this data on you will likely be kept by your company for a very long time, and (c) it will be used to pay, promote, train, and deploy or fire you, you should be worried about just how fundamentally flawed it really is.

The only realm in which humans are an unimpeachable source of truth is that of their own feelings and experiences. Doctors have long known this. When they check up on you post-op, they'll ask, "On a scale of one to 10, with 10 being high, how would you rate your pain?" And if you say, "Five," the doctor may then prescribe all manner of treatments, but what she's unlikely to do is challenge you on your "five." It doesn't make sense, no matter how many operations she has done, to tell you your "five" is wrong, and that, actually, this morning your pain is a "three." It doesn't make sense to try to parse what you mean by "five," and whether any cultural differences might indicate that your "five" is not, in fact, a real "five." It doesn't make sense to hold calibration sessions with other doctors to ensure that your "five" is the same as the other "fives" in the rooms down the hall. Instead, she can be confident that you are the best judge of your pain and that all she can know for sure is that you will be feeling better when you rate your pain lower. Your rating is yours, not hers.

Just as your doctor doesn't know the truth of your pain, we don't know the truth about our colleagues, at least not in any objective way. You may read that workers today—especially Millennials—want to know where they stand. You may occasionally have team members ask you to tell them where they stand, objectively. You may feel that it's your duty to try to answer these questions. But you can't—none of us can. All we can do—and it's not nothing—is share our own feelings and experiences, our own reactions. Thus we can tell someone whether his voice grates *on us;* whether he's persuasive *to us;* whether his presentation is boring *to us.* We may not be able to tell him where he stands, but we can tell him where he stands *with us.* Those are our truths, not his. This is a humbler claim, but at least it's accurate.

How We Learn

Another of our collective theories is that feedback contains useful information, and that this information is the magic ingredient that will accelerate someone's learning. Again, the research points in the opposite direction. Learning is less

a function of adding something that isn't there than it is of recognizing, reinforcing, and refining what already is. There are two reasons for this.

The first is that, neurologically, we grow more in our areas of greater ability (our strengths are our development areas). The brain continues to develop throughout life, but each person's does so differently. Because of your genetic inheritance and the oddities of your early childhood environment, your brain's wiring is utterly unique. Some parts of it have tight thickets of synaptic connections, while others are far less dense, and these patterns are different from one person to the next. According to brain science, people grow far more neurons and synaptic connections where they already have the most neurons and synaptic connections. In other words, each brain grows most where it's already strongest. As Joseph LeDoux, a professor of neuroscience at New York University, memorably described it, "Added connections are therefore more like new buds on a branch rather than new branches." Through this lens, learning looks a lot like building, little by little, on the unique patterns already there within you. Which in turn means learning has to start by finding and understanding those patterns—your patterns, not someone else's.

Second, getting attention to our strengths from others catalyzes learning, whereas attention to our weaknesses smothers it. Neurological science also shows what happens to us when other people focus on what's working within us instead of remediating what isn't. In one experiment scientists split students into two groups. To one group they gave positive coaching, asking the students about their dreams and how they'd go about achieving them. The scientists probed the other group about homework and what the students thought they were doing wrong and needed to fix. While those conversations were happening, the scientists hooked each student up to a functional magnetic resonance imaging machine to see which parts of the brain were most activated in response to these different sorts of attention.

In the brains of the students asked about what they needed to correct, the sympathetic nervous system lit up. This is the "fight or flight" system, which mutes the other parts of the brain and allows us to focus only on the information most necessary to survive. Your brain responds to critical feedback as a threat and narrows its activity. The strong negative emotion produced by criticism "inhibits

access to existing neural circuits and invokes cognitive, emotional, and perceptual impairment," psychology and business professor Richard Boyatzis said in summarizing the researchers' findings.

Focusing people on their shortcomings or gaps doesn't enable learning. It impairs it.

In the students who focused on their dreams and how they might achieve them, the sympathetic nervous system was not activated. What lit up instead was the parasympathetic nervous system, sometimes referred to as the "rest and digest" system. To quote Boyatzis again: "The parasympathetic nervous system…stimulates adult neurogenesis (i.e., growth of new neurons)…, a sense of well-being, better immune system functioning, and cognitive, emotional, and perceptual openness."

What findings such as these show us is, first, that learning happens when we see how we might do something better by adding some new nuance or expansion to our own understanding. Learning rests on our grasp of what we're doing well, not on what we're doing poorly, and certainly not on someone else's sense of what we're doing poorly. And second, that we learn most when someone else pays attention to what's working within us and asks us to cultivate it intelligently. We're often told that the key to learning is to get out of our comfort zones, but these findings contradict that particular chestnut: Take us very far out of our comfort zones, and our brains stop paying attention to anything other than surviving the experience. It's clear that we learn most in our comfort zones, because that's where our neural pathways are most concentrated. It's where we're most open to possibility, most creative, insightful, and productive. That's where feedback must meet us—in our moments of flow.

Excellence

We spend the bulk of our working lives pursuing excellence in the belief that while defining it is easy, the really hard part is codifying how we and everyone else on our team should get there. We've got it backward: Excellence in any endeavor is almost impossible to define, and yet getting there, for each of us, is relatively easy.

Excellence is idiosyncratic. Take funniness—the ability to make others laugh. If you watch early Steve Martin clips, you

might land on the idea that excellence at it means strumming a banjo, waggling your knees, and wailing, "I'm a wild and crazy guy!" But watch Jerry Seinfeld, and you might conclude that it means talking about nothing in a slightly annoyed, exasperated tone. And if you watch Sarah Silverman, you might think to yourself, no, it's being caustic, blunt, and rude in an incongruously affectless way. At this point you may begin to perceive the truth that "funny" is inherent to the person.

Watch an NBA game, and you may think to yourself, "Yes, most of them are tall and athletic, but boy, not only does each player have a different role on the team, but even the players in the same role on the same team seem to do it differently." Examine something as specific and as limited as the free throws awarded after fouls, and you'll learn that not only do the top two free-throw shooters in history have utterly different styles, but one of them, Rick Barry—the best ever on the day he retired (look him up)—didn't even throw overhand.

Excellence seems to be inextricably and wonderfully intertwined with whoever demonstrates it. Each person's version of it is uniquely shaped and is an expression of that person's individuality. Which means that, for each of us, excellence is easy, in that it is a natural, fluid, and intelligent expression of our best extremes. It can be cultivated, but it's unforced.

Excellence is also not the opposite of failure. But in virtually all aspects of human endeavor, people assume that it is and that if they study what leads to pathological functioning and do the reverse—or replace what they found missing—they can create optimal functioning. That assumption is flawed. Study disease and you will learn a lot about disease and precious little about health. Eradicating depression will get you no closer to joy. Divorce is mute on the topic of happy marriage. Exit interviews with employees who leave tell you nothing about why others stay. If you study failure, you'll learn a lot about failure but nothing about how to achieve excellence. Excellence has its own pattern.

And it's even more problematic than that. Excellence and failure often have a lot in common. So if you study ineffective leaders and observe that they have big egos, and then argue that good leaders should not have big egos, you will lead people astray. Why? Because when you do personality assessments with highly effective leaders, you discover that they have very strong egos as well. Telling someone that you must lose your ego to be a good leader is flawed advice.

Likewise, if you study poor salespeople, discover that they take rejection personally, and then tell a budding salesperson to avoid doing the same, your advice will be misguided. Why? Because rigorous studies of the best salespeople reveal that they take rejection deeply personally, too.

As it happens, you find that effective leaders put their egos in the service of others, not themselves, and that effective salespeople take rejection personally because they are personally invested in the sale—but the point is that you will never find these things out by studying *ineffective* performance.

Since excellence is idiosyncratic and cannot be learned by studying failure, we can never help another person succeed by holding her performance up against a prefabricated model of excellence, giving her feedback on where she misses the model, and telling her to plug the gaps. That approach will only ever get her to adequate performance. Point out the grammatical flaws in an essay, ask the writer to fix the flaws, and while you may get an essay with good grammar, you won't get a piece of writing that transports the reader. Show a new teacher when her students lost interest and tell her what to do to fix this, and while you may now have a teacher whose students don't fall asleep in class, you won't have one whose students necessarily learn any more.

How to Help People Excel

If we continue to spend our time identifying failure as we see it and giving people feedback about how to avoid it, we'll languish in the business of adequacy. To get into the excellence business we need some new techniques:

Look for outcomes. Excellence is an outcome, so take note of when a prospect leans into a sales pitch, a project runs smoothly, or an angry customer suddenly calms down. Then turn to the team member who created the outcome and say, "That! Yes, that!" By doing this, you'll stop the flow of work for a moment and pull your colleague's attention back toward something she just did that really worked.

There's a story about how legendary Dallas Cowboys coach Tom Landry turned around his struggling team. While the other teams were reviewing missed tackles and dropped balls, Landry instead combed through footage of previous games and created for each player a highlight reel of when he had done something easily, naturally, and effectively. Landry reasoned that while the number of wrong ways to do something was infinite, the number of right ways, for any particular player, was not. It was knowable, and the best way to discover it was to look at plays where that person had done it excellently. From now on, he told each team member, "we only replay your winning plays."

Now on one level he was doing this to make his team members feel better about themselves because he knew
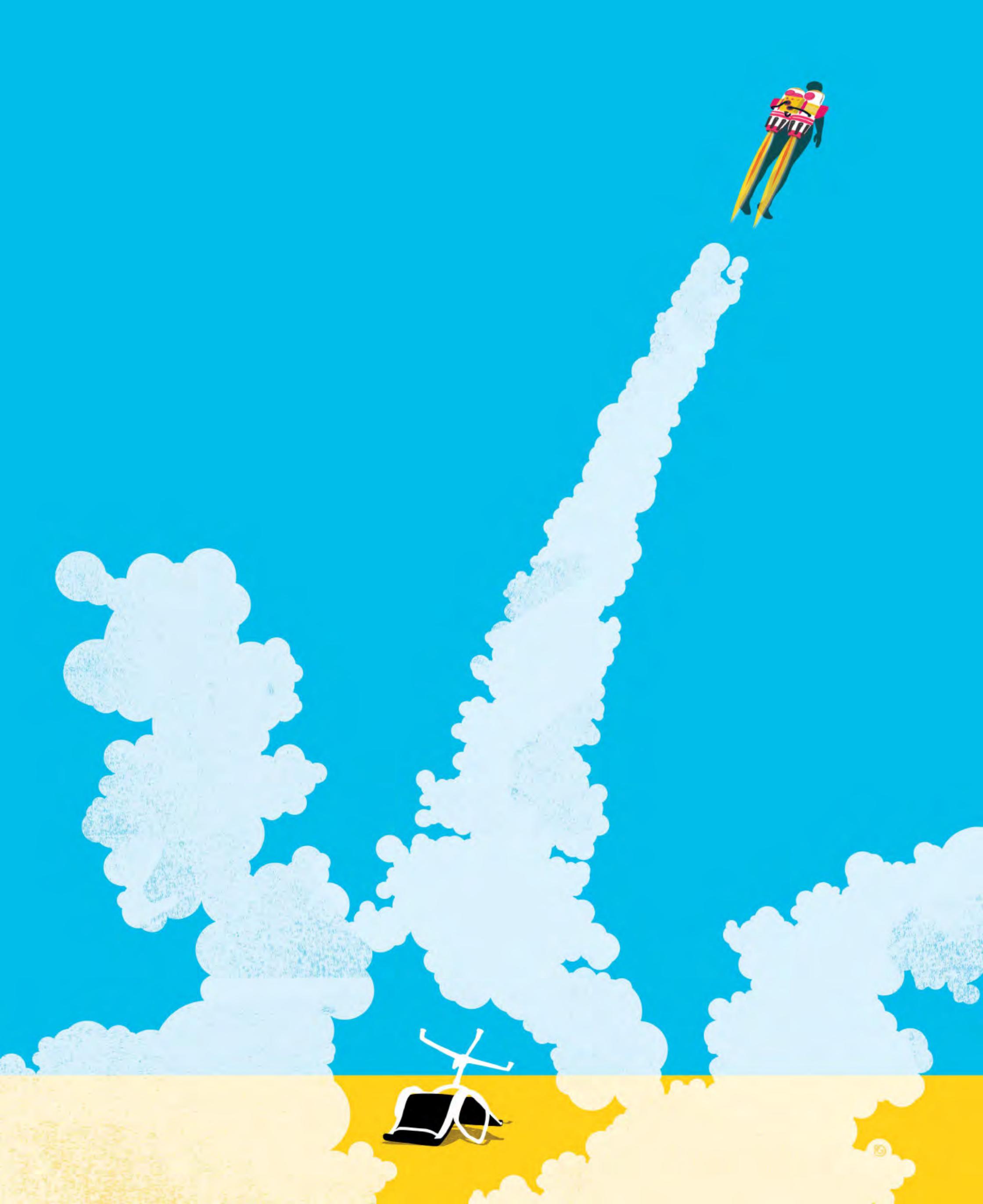
THE RIGHT WAY TO HELP COLLEAGUES EXCEL

If you want to get into the excellence business, here are some examples of language to try.

INSTEAD OF	TRY
Can I give you some feedback?	Here's my reaction.
Good job!	Here are three things that really worked for me. What was going through your mind when you did them?
Here's what you should do.	Here's what I would do.
Here's where you need to improve.	Here's what worked best for me, and here's why.
That didn't really work.	When you did *x*, I felt *y* or I didn't get that.
You need to improve your communication skills.	Here's exactly where you started to lose me.
You need to be more responsive.	When I don't hear from you, I worry that we're not on the same page.
You lack strategic thinking.	I'm struggling to understand your plan.
You should do *x* [in response to a request for advice].	What do you feel you're struggling with, and what have you done in the past that's worked in a similar situation?

the power of praise. But according to the story, Landry wasn't nearly as interested in praise as he was in learning. His instincts told him that each person would improve his performance most if he could see, in slow motion, what his own personal version of excellence looked like.

You can do the same. Whenever you see one of your people do something that worked for you, that rocked your world just a little, stop for a minute and highlight it. By helping your team member recognize what excellence looks like for her—by saying, "That! Yes, that!"—you're offering her the chance to gain an insight; you're highlighting a pattern that is already there within her so that she can recognize it, anchor it, re-create it, and refine it. That is learning.

Replay your instinctive reactions. Unlike Landry, you're not going to be able to videotape your people. Instead, learn how to replay to them your own personal reactions. The key is not to tell someone how well she's performed or how good she is. While simple praise isn't a bad thing, you are by no means the authority on what objectively good performance is, and instinctively she knows this. Instead, describe what you experienced when her moment of excellence caught your attention. There's nothing more believable and more authoritative than sharing what you saw from her and how it made you feel. Use phrases such as "This is how that came across for me," or "This is what that made me think," or even just "Did you see what you did there?" Those are your reactions—they are your truth—and when you relay them in specific detail, you aren't judging or rating or fixing her; you're simply reflecting to her the unique "dent" she just made in the world, as seen through your eyes. And precisely because it isn't a judgment or a rating it is at once more humble and more powerful.

On the flip side, if you're the team member, whenever your team leader catches you doing something right, ask her to pause and describe her reaction to you. If she says, "Good job!" ask, "Which bit? What did you see that seemed to work well?" Again, the point of this isn't to pile on the praise. The point is to explore the nature of excellence, and this is surely a better object for all the energy currently being pointed at "radical transparency" and the like. We're so close to our own performance that it's hard to get perspective on it and see its patterns and components. Ask for your leader's help in rendering the unconscious, conscious—so that you can understand it, improve at it, and, most important, do it again.

Never lose sight of your highest-priority interrupt. In computing a high-priority interrupt happens when something requires a computer processor's immediate attention, and the machine halts normal operations and jumps the urgent issue to the head of the processing queue. Like computer processors, team leaders have quite a few things that demand their attention and force them to act. Many of them are problems.

If you see something go off the rails—a poorly handled call, a missed meeting, a project gone awry—the instinct will kick in to stop everything to tell someone what she did wrong and what she needs to do to fix it. This instinct is by no means misguided: If your team member screws something up, you have to deal with it. But remember that when you do, you're merely remediating—and that remediating not only inhibits learning but also gets you no closer to excellent performance. As we've seen, conjuring excellence from your team members requires a different focus from you. If you see somebody doing something that really works, stopping her and dissecting it with her isn't only a high-priority interrupt, it is your *highest*-priority interrupt. As you replay each small moment of excellence to your team member, you'll ease her into the "rest and digest" state of mind. Her understanding of what excellence looks and feels like within her will become more vivid, her brain will become more receptive to new information and will make connections to other inputs found in other regions of her brain, and she will learn and grow and get better.

Explore the present, past, and future. When people come to you asking for feedback on their performance or what they might need to fix to get promoted, try this:

Start with the *present.* If a team member approaches you with a problem, he's dealing with it *now.* He's feeling weak or challenged, and you have to address that. But rather than tackling the problem head-on, ask your colleague to tell you three things that are working for him *right now.* These things might be related to the situation or entirely separate. They might be significant or trivial. Just ask the question, and you're priming him with oxytocin—which is sometimes called the "love drug" but which here is better thought of as the "creativity drug." Getting him to think about specific things that are going well will alter his brain chemistry so that he can be open to new solutions and new ways of thinking or acting.

Next, go to the *past.* Ask him, "When you had a problem like this in the past, what did you do that worked?" Much of our life happens in patterns, so it's highly likely that he has encountered this problem at least a few times before. On one of those occasions he will almost certainly have found some way forward, some action or insight or connection that enabled him to move out of the mess. Get him thinking about that and seeing it in his mind's eye: what he actually felt and did, and what happened next.

Finally, turn to the *future.* Ask your team member, "What do you already know you need to do? What do you already know works in this situation?" By all means offer up one or two of your own experiences to see if they might clarify his own. But operate under the assumption that he already knows the solution—you're just helping him recognize it.

The emphasis here should not be on whys—"Why didn't that work?" "Why do you think you should do

that?"—because those lead both of you into a fuzzy world of conjecture and concepts. Instead, focus on the whats—"What do you actually want to have happen?" "What are a couple of actions you could take right now?" These sorts of questions yield concrete answers, in which your colleague can find his actual self doing actual things in the near-term future.

HOW TO GIVE people feedback is one of the hottest topics in business today. The arguments for radical candor and unvarnished and pervasive transparency have a swagger to them, almost as if to imply that only the finest and bravest of us can face these truths with nerveless self-assurance, that those of us who recoil at the thought of working in a climate of continual judgment are condemned to mediocrity, and that as leaders our ability to look our colleagues squarely in the eye and lay out their faults without blinking is a measure of our integrity.

But at best, this fetish with feedback is good only for correcting mistakes—in the rare cases where the right steps are known and can be evaluated objectively. And at worst, it's toxic, because what we want from our people—and from ourselves—is not, for the most part, tidy adherence to a procedure agreed upon in advance or, for that matter, the ability to expose one another's flaws. It's that people contribute their own unique and growing talents to a common good, when that good is ever-evolving, when we are, for all the right reasons, making it up as we go along. Feedback has nothing to offer to that.

We humans do not do well when someone whose intentions are unclear tells us where we stand, how good we "really" are, and what we must do to fix ourselves. We excel *only* when people who know us and care about us tell us what they experience and what they feel, and in particular when they see something within us that really works.

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> If you see somebody doing something that really works, stop her and dissect it.

Operational Transparency

Make your processes visible to customers and your customers visible to employees.

Ryan W. Buell
*Professor, Harvard
Business School*
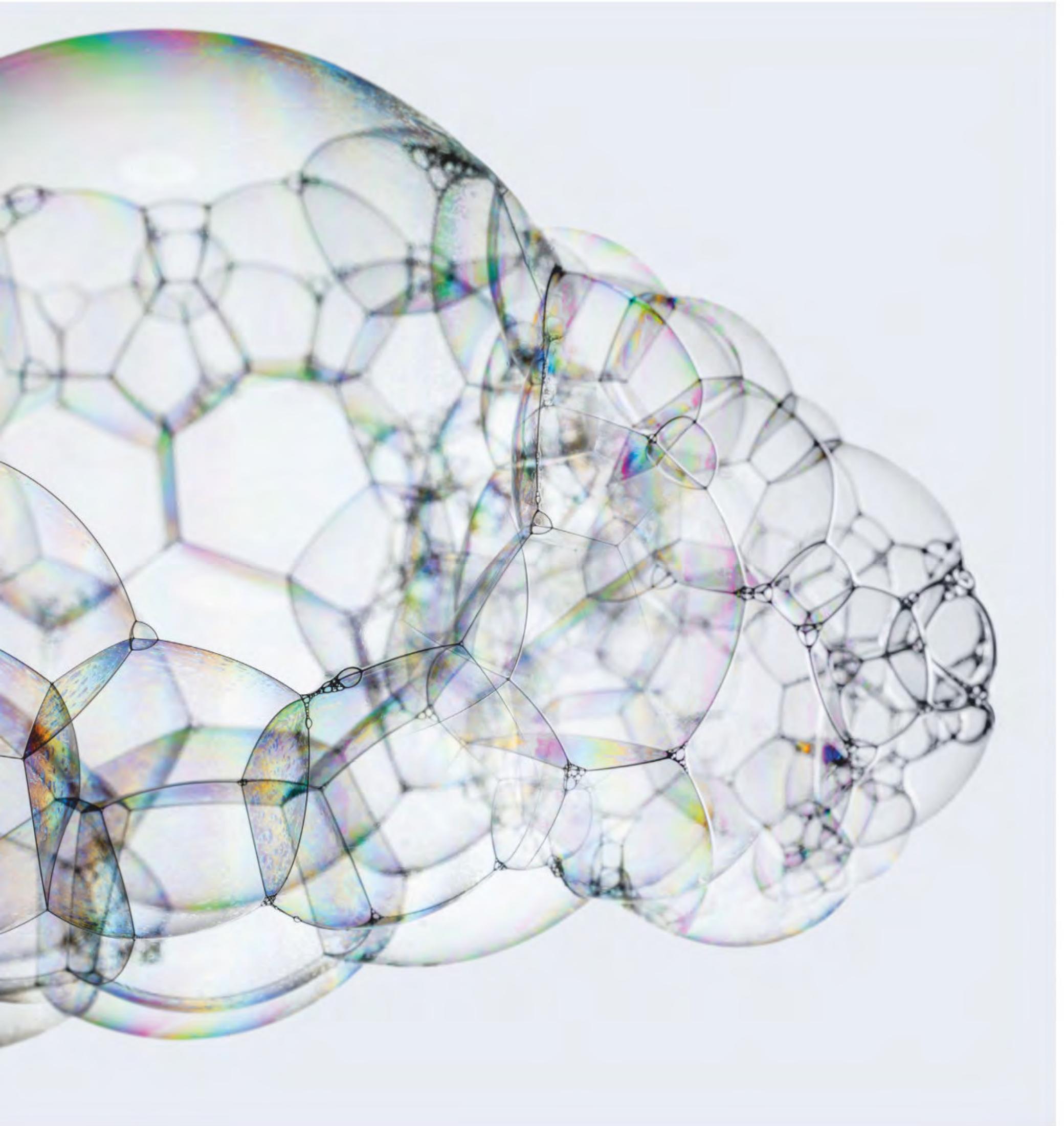
Photographs by **STEPHEN LEWIS**

Barclays Bank installed the world's first successful automated teller machine to much fanfare in June 1967. Having a machine distribute cash was less expensive and more efficient than having a human teller do it. What's more, customers could access the ATM at any hour—even when the bank was closed. It seemed like a win-win, and ATMs quickly spread around the world. Today people are three times more likely to withdraw money from an ATM than from a human teller.

However, there's a wrinkle to the ATM success story. When customers use ATMs more and tellers less, their overall level of satisfaction with their bank goes down. It turns out that when consumers can't see the work that's being done to serve them, their perception is that less effort went into delivering the service, so they don't appreciate or value it as much. ATMs carry out complex work: They reliably identify customers, find their account information, and then accurately complete the transaction—all while protecting the confidentiality of their private information. But separated from this work by a hard, metallic surface and a vague "processing transaction" message, customers take the "wizardry" for granted in a way that they don't when they're face-to-face with tellers who are working in their behalf.

Automation has enabled enormous efficiencies in recent years, but it has also detached customers from operations. Thanks to fleets of order-picking robots and miles of automated conveyors, it takes less than one minute of human labor to pick, pack, and ship the typical Amazon package—a miraculous ballet among people and machines that customers never glimpse. Google has more than a million servers working to deliver answers to more than a trillion queries a year—information distributed in fractions of a second without a hint of the massive operation behind it.

And even where technology hasn't erected barriers between customers and the work being performed for them, leaders have put them up. At hospitals, as many as 70% of clinical diagnoses come from the pathology lab—but the people who run those tests are often hidden away in the basement or off-site. Hundreds of people have a hand in the successful takeoff and landing of a commercial flight—but

Idea in Brief

THE DILEMMA

Conventional wisdom holds that the more contact an operation has with its customers, the less efficiently it will run. But when customers are partitioned away from the operation, they are less likely to fully understand and appreciate the work going on behind the scenes, thereby placing a lower value on the product or service being offered.

THE SOLUTION

Managers should experiment with operational transparency—the deliberate design of windows into and out of the organization's operations to help customers understand and appreciate the value being added.

THE BENEFITS

Witnessing the hidden work performed on their behalf makes customers more satisfied, more willing to pay, and more loyal. It can also make employees more satisfied by demonstrating to them that they are serving their customers well. However, managers should be aware of certain conditions in which transparency can backfire.

for the most part, passengers see only the cabin crew. Consider all the people who work in offices, kitchens, warehouses, and factories whose efforts create immeasurable value but who never enter customers' minds.

Therein lies a crucial managerial dilemma that I've been studying over the past decade. It has long been believed that the more contact an operation has with its customers, the less efficiently it runs. Customers are, as a researcher in the 1960s boldly called them, "environmental disturbances." As the argument goes, separating customers from internal processes through physical distance, time, or the introduction of technology enables companies to perform more efficiently and, in turn, create more value for consumers. But my research shows that the pendulum can swing too far. When customers are cordoned off from a company's operation, they are less likely to fully understand and appreciate the value being created. As a result, they are less satisfied, less willing to pay, less trusting, and less loyal to the company over time. Employees also suffer when they are cut off from the business's front lines, as they lose the motivation and enjoyment that comes from making a difference in people's lives and are denied the opportunities to learn and improve that arise from interaction with customers.

One solution that my colleagues and I have investigated is the introduction of operational transparency—the deliberate design of windows into and out of the organization's operations to help customers and employees alike understand and appreciate the value being created. To determine when and how to design such windows, managers must understand when and how customers and employees want to open up operations to scrutiny—and when both parties would prefer that work be undertaken behind the scenes.

Behind the Curtain

I first started documenting the beneficial effects of operational transparency in 2008, when I set up a mock website called Travel Finder, with my Harvard Business School colleague Michael Norton, as part of a study. We had noticed that travel agents, like bank tellers, were being made increasingly obsolete by technology—in this case, by online travel agencies. We also noticed that most online ticket sites hid the work they performed for customers behind progress bars and activity spinners, or behind marketing messages such as "Did you know you can book your hotel with us, too?" Online travel agency Kayak was an exception. The company showed customers how many different airlines it was searching while they waited, and it slotted itineraries into the results screen as they were found instead of all at once. We wondered whether this operational transparency would change the way customers viewed the service.

For our travel study, we recruited people to search for flights from Boston to Los Angeles on our website. After they entered their search information, we randomly varied how long people waited as the website searched for possible tickets. While waiting, some people saw a progress bar, and some were shown, in addition to the progress bar, the hidden work that the website was doing: "Now getting results from American Airlines...from Jet Blue...133 results found so far... Now 427..." We then surveyed people about how valuable they perceived the website to be. No matter how long people had waited, they always considered the website to be more valuable when it showed the work it was doing for them. They also reported a higher willingness to pay, a perception of higher quality, and a greater desire to use the site again. What's more, they were also considerably less sensitive to their wait time when they experienced operational transparency. People who received instantaneous service perceived the service to be as valuable as people who waited 25 seconds with a progress bar, and as valuable as people who waited 55 seconds with operational transparency. That's remarkable in an era in which we have come to expect online services to be delivered in fractions of a second.

In other experiments, people who experienced operational transparency expressed more interest in using the website again in the future, even when they compared it with a faster website that returned the same results and did not show the work. We also found that people preferred websites that showed them the work over ones that did other things to distract from the wait—like providing entertaining pictures of their destination, promotional messages about other services offered by the website, or an interactive game of tic-tac-toe. None of those types of approaches made the service seem more valuable.

Why does operational transparency seem to have this unique power? We surveyed people who have (and have not) been given a glimpse behind the curtain in services as varied as restaurants, retail, and online dating to learn how operational transparency changes their perceptions. We found that when people could see the work that was going on behind the scenes, they perceived that more effort went into the delivery of the service. They also believed that the service provider had more expertise and was being more thorough. They appreciated that effort and quality, and they in turn valued the service more.

In retail, for instance, Bhavya Mohan (of the University of San Francisco), Leslie John (of Harvard Business School), and I studied what happened when an online retailer added an infographic highlighting the costs and processes involved in manufacturing various products. For example, a wallet that sold for $115 included costs for raw materials ($14.68), construction ($38.56), duties ($4.26), and transportation ($1.00). Revealing the costs enabled the company to showcase to customers the otherwise hidden work that went into creating the wallet. In the process, of course, it also revealed that customers were paying $115.00 for something that cost $58.50 to make. The company further informed customers that its 1.9x markup compared favorably with the 6x markup charged by competing retailers—whose prices for similarly constructed items were higher. We found that sales of the wallets with operational transparency went up by 26% relative to wallets where the costs were not shared.

In subsequent experiments, we've learned that voluntarily providing operational transparency not only increases sales but also increases people's trust and satisfaction—even in settings where trust is otherwise low, such as government services. According to the Pew Research Center, 73% of Americans in 1958 reported trusting government to do the right thing at least most of the time; today a paltry 20% do. So-called sunshine laws require a minimum level of transparency by elected officials and policy makers about certain of their activities, but those laws are not meant to spotlight the often invisible work that government does on a daily basis to create value in citizens' lives—such as disposing of trash, filling potholes, cleaning up graffiti, and fixing broken streetlights.

In 2009, Boston's local government developed a smartphone app called Citizens Connect (now BOS:311), which enables residents of the city to submit public service requests. Using the app, a resident can take a photo of a problem they want to report, such as a pothole, and the picture will automatically be geotagged using the phone's GPS, and sent to the public works department. My colleagues Ethan Porter (of George Washington University), Michael Norton (of HBS), and I partnered with the City of Boston and Code for America in 2014 to study how showing the work being performed affected people's perceptions of government. We found that when people interacted with a website that showed images of the work being requested and performed, they became significantly more trusting and supportive of the government than if they interacted with a website that merely provided a tally of issues being reported and resolved. What's more, when the city took things a step further and asked employees to take photos of the work they were doing and share them with the people who submitted the original requests, users became considerably more engaged, increasing the number of requests they made on a monthly basis by 60% and reporting issues in 40% more categories. Increased citizen engagement enabled Boston's government to allocate more workers to solving problems and fewer to finding them, so more work could get done.

The thoughtful application of transparency can create value even in settings where privacy is traditionally prized, such as health care. London Business School's Kamalini Ramdas and Nazli Sonmez and I collaborated with doctors at Aravind Eye Hospital, in Pondicherry, India, to study an application of operational transparency in delivering care to patients with glaucoma—an eye disease that is the second leading cause of blindness and afflicts some 12 million Indians. Some patients in our study were given appointments with their doctors in accordance with the hospital's normal protocol. Others were given shared appointments with three or four other patients. At the shared appointments, patients were able to see what the doctor could see when examining the eyes of others and hear the questions asked by other patients. Results from our ongoing collaboration suggest that patients who have shared medical appointments are more satisfied and engaged during their

experience, are more likely to ask questions, learn more from the interactions, are more compliant with their prescriptions, and are more likely to return for follow-up care than patients who have traditional one-on-one appointments with their doctor.

Although companies generally strive to make services appear as effortless as possible, examples of organizations beginning to experiment with various forms of operational transparency are becoming more abundant. When customers use an ATM to withdraw money from their BBVA bank accounts in Spain, the ATM's full-color screen displays visual representations of the currency being counted, sorted, and arranged for distribution. At most Starbucks drive-through locations in the United States, the intercom has been replaced with a video monitor and camera system. When customers place an order, they come face-to-face with the barista as he or she rings up the order and marks instructions on each cup. At Domino's, customers can use the company's Pizza Tracker app to watch as the kitchen workers prep, bake, and package the pizza for delivery.

NPR and the *New York Times* podcast *The Daily* are connecting listeners and readers with the otherwise obscure work involved in researching, producing, and delivering the headlines of the day. NPR posts live feeds from its studios, and *The Daily* interviews the paper's own reporters. In Detroit, the Mayor's Office has invested in the Neighborhood Improvement Tracker, a public-facing website that shows at a lot-by-lot level the many efforts being directed toward the city's recovery, such as demolitions scheduled and completed to remove urban blight and building permits issued to enhance the community.

The evidence is clear: Operational transparency can fundamentally reshape the ways customers understand, perceive, and engage with the organizations that serve them. But what of employees?

Closing the Loop for Employees

Pioneering studies of service industries in the early 2000s found that a primary driver of satisfaction among employees is the knowledge that their company is delivering results to happy customers. Indeed, a 2007 study led by Adam Grant, an organizational psychologist and professor at Wharton,

found that when call center agents soliciting donations for college scholarships actually met some of the students their work supported, their productivity and persistence skyrocketed. But what happens when the interaction between the customer and employee occurs in real time?

In 2012, Tami Kim (of the Darden School of Business), Chia-Jung Tsay (of University College London), and I ran an experiment in the Annenberg Hall dining facility at Harvard, which serves more than 3,000 meals every day. Annenberg was built in the late 1800s at a time when it was considered uncouth for diners to be able to see the work taking place in the kitchen. In that tradition, diners at Annenberg who desire eggs, a fish sandwich, a hamburger, or some other grill item cooked their way must write their order on a piece of paper and hand it to an employee, who passes it through a small window into the kitchen, where a chef reads the order, cooks the item, and places it back in the window to be taken by an employee and given to the customer. The chefs can't see the customers, and the customers can't see the chefs.

We installed iPads with video-conferencing software—one at the order station, in view of the customers, and another in the kitchen, in view of the chefs. We then timed how long it took to make various dishes and measured both chef and diner satisfaction. When we turned on the iPads in a way that allowed only the chefs to see their customers, customer satisfaction with the food rose 14%. When we turned on the iPads so the customers could see the chefs too, satisfaction went up 22%, and the chefs worked 19% faster. One chef told us, "When [the customers] can see us [make their food], they appreciate it, and I appreciate that. It makes me want to improve."

Through surveys and additional experiments, we learned that when customers saw the chefs cooking their food, they perceived that more effort went into serving them, they appreciated the effort, and they valued the service more. When the chefs could see their customers—the people who were benefiting from their efforts—the work they were doing seemed more appreciated and impactful, making them more satisfied with their jobs and more willing to exert effort. It was a virtuous cycle.

Consider another example: the Japanese train-cleaning company, Tessei, which I researched with Ethan Bernstein for an HBS case study. Tessei is charged with the Herculean

task of cleaning the Shinkansen bullet trains during their brief stops at Tokyo station—1,000 seats in seven minutes. That's the equivalent of cleaning six Boeing 737s in less than half the time it typically takes to clean one. In the early 2000s, Tessei's employees were struggling to get the job done. Part of the challenge was that the work was underappreciated: Cleaning the bullet trains was known to be dirty and difficult, and so being a cleaner at Tessei was considered shameful in Japan. Accordingly, workers did whatever they could to escape the notice of customers. In 2005, a new leader, Teruo Yabe, revitalized the service, in part by promoting operational transparency among customers and employees. After the company changed employee uniforms from an invisible pale blue (which blended in with the body of the trains) to a vibrant red, passengers began to see and appreciate the work that these crews were doing, and after more interaction was instituted between the workers and the passengers, employees felt more appreciated and found a greater sense of purpose in their work. Employees began suggesting process improvements, and customers began chipping in to help tidy up their seats. There were quantifiable performance improvements too; today a Tessei crew can clean a train in four minutes.

The India-based luxury hotel chain Oberoi Hotels takes operational transparency one step further, as I learned in my research for an HBS case study with Ananth Raman (of HBS) and Vidhya Muthuram (of the Blavatnik School of Government). Every employee in the company is preauthorized to spend up to Rs 1,500 (about US$25) to create moments of delight for guests. Whenever they learn of an opportunity to customize the service to improve a guest's experience, they're encouraged to act on it. The only stipulation is that employees must log what they have done so that the company and other employees can learn from their creativity. What has resulted is a feedback loop that fosters in employees a greater sense of purpose, helps customers feel better cared for, and improves organizational learning. Thanks in part to these efforts, Oberoi's properties routinely receive effusive reviews in customer surveys, and the company is perennially rated as one of the best luxury hotel brands in the world.

In contexts in which designing a face-to-face connection between employees and customers is impractical,

technology can be used to successfully facilitate operational transparency. In 2013, Domino's piloted a feature called Domino's Live in one of its Salt Lake City locations, installing web cameras in the kitchen. Building on its Pizza Tracker app, customers ordering pizzas in Salt Lake could log on and watch a live feed of their pizzas being made. As it turned out, tens of thousands of people from around the country logged on to watch other people's pizzas get made. Recognizing the potential, Domino's promoted Domino's Live on Facebook, and anytime someone clicked the "Like" button, a "Like Light" in the kitchen went on. This gave the pizza makers a signal that someone looking on appreciated the work they were doing. Although Domino's discontinued Domino's Live, the company added a feature to Pizza Tracker that enables customers to send notes of encouragement through the app to the people who are preparing their pizzas—pre-specified messages such as "I don't know what I'd do without you" and "You are my pizza-making heroes." In a similar move, Uber recently updated its app to allow riders to close the loop with drivers—prompting them to send thank-you notes, along with tips, to the drivers after the ride is over. As one driver explained, "It makes my day to know when I've made somebody else's."

The Risk of Backfire

For all its benefits, operational transparency doesn't always deliver positive results. There are circumstances when it can repel customers and undermine employees. But even in such instances, managers should think twice before opting for complete opacity. Operational transparency should be carefully considered when:

It reveals things people genuinely don't want to see. Few may desire a behind-the-scenes look at trash collection or enjoying watching the dashcam footage of a violent police altercation. However, there's a difference between transparency that elicits the reaction "I'd rather not see that" and transparency that elicits the reaction "That should not happen." In the case of services that people aren't really interested in or find unappealing, companies should look for ways to use transparency to change the way people think about and engage with a service. For example, the city of Halifax, Nova Scotia, switched to clear trash bags

in 2015 so that everyone could see what was being thrown away. Curbside waste collection fell by more than 30%, and recycling rates increased nearly 20%. When transparency causes people to object to what they see, organizations can draw on the experience to come up with alternative approaches that improve practice going forward. Dashcam footage of excessive violence by police departments has led to public outrage, but it has also improved oversight and accountability, sparked conversations that have led to policy change, and improved frontline training. "Out of sight, out of mind" may be more comfortable for everyone in the moment, but it rarely ensures the best long-term outcomes.

It engenders anxiety. Showing customers every step while their credit is being evaluated for a loan, or peering over employees' shoulders as they work, amplifies anxiety. Ethan Bernstein, of HBS, found that when curtains were put up around production lines at a Chinese cell phone manufacturer, productivity increased by 10% to 15%. Free from prying eyes, workers felt more focused and licensed to experiment with ways to improve standardized processes. What's more, workers felt safe to share ideas with one another, building team camaraderie and improving performance. When transparency makes us feel watched, it can hold us back; but when it helps us feel engaged, it can move us forward. For example, my HBS colleague Michelle Shell and I found that when customers who were transparently being evaluated for a loan were also provided with an easy way to contact a support person with questions throughout the process, the probability they would move forward with the loan, if offered, increased.

It shatters our faith in the relationship. When transparency reveals that a company isn't even-handed or that its practices violate implicit social norms, it makes customers understandably upset. Incidents of air rage—when an irate passenger causes a plane to land early—are higher on flights that have both a business class and an economy class and all passengers board from the front, forcing people in economy class to experience the disparity. This study, conducted by Katherine DeCelles (of the Rotman School of Management) and Michael Norton, found that when the plane boards in the middle, so there's less transparency, the effect goes away. Or consider the ubiquitous marketing

practice of personalizing ads. Tami Kim, along with Kate Barasz (of HBS) and Leslie John, found that when companies are transparent about targeting online ads on the basis of things we've revealed about ourselves, we appreciate the personalization. But when the transparency instead shows that they customize ads according to things they've *inferred* about us, it makes us upset. Customers also bristle when it's clear instead that companies are sharing their information with third parties without permission.

It destroys the magic. Sometimes we want to suspend our disbelief, and providing too much transparency would make that impossible. Retailers that sell high-end jewelry, musical instruments, or home decor often keep redundant inventory off the floor to give the pieces we see a special, one-of-a-kind mystique. The illusion that our ring or guitar or vase is unique enhances our experience. Likewise, even when it's 95 degrees outside, the cast member playing Mickey Mouse at Disneyland should keep the heavy, stuffy head of the costume on during the parade. Nothing can ruin the experience of make-believe like too much transparency. In other cases, we're fascinated to be in on the secret. Factory tours and "how it's made" shows are ubiquitous, and we clamor to watch bloopers and outtakes from our favorite movies. In fact, Disney offers a Backstage Magic experience for those who self-select into peeking behind the curtain.

It exposes an ineffective process. When transparency reveals employees who are incapable, indifferent, or powerless to deliver on the value proposition of the firm, customers can become incensed. Think back to the last service interaction you had where two employees were visibly chatting with each other instead of helping you. Or remember the last time your simmering frustration rose to a boil when a customer service rep repeated apologies for a problem over and over but had no means or authority to remedy the situation. Meanwhile, exposing employees to disenchanted and overtly negative customers, whom they have no hope of satisfying, can be a recipe for burnout. Agent turnover in many call centers, for example, exceeds 150% per year. Often situations like these arise when transparency hasn't been designed to be reciprocal and to engender learning. Transparency that is accompanied by mechanisms to collect and learn from customer-provided feedback can accelerate, and create opportunities to celebrate, improvement.

It reveals that a company's best efforts yield poor results. When people can see that a lot of behind-the-scenes effort went into creating an inadequate outcome, it reinforces their impression that the company is bad at what it does. In an experiment I conducted with Michael Norton, participants engaged with one of two online dating websites that gave them dissatisfying results. Participants perceived that the site that showed them how hard it was working was worse than the one that delivered the same bad result but didn't show the work. The impression was, "You tried so hard, and that's the best you could do? You must not be very good at your job." That said, when mistakes are made, timely transparency is still typically the best path. Customers may punish companies that fail to be transparent about missteps or errors, questioning the organization's motives for hiding the information. "Why did Equifax wait 40 days to inform 143 million people that their confidential information had been compromised?" customers might wonder. Or "Why did Facebook wait three years to disclose that Cambridge Analytica improperly accessed the records of 50 million users?"

It shows that the company's products or services are inferior to competitors'. A fundamental tenet of business still applies: If your customers find that your products are of poor quality, overly expensive, or otherwise less attractive than your competitors' offerings, they will do business elsewhere. Shwetha Mariadassou (of Stanford), Yanchong Zheng (of MIT), and I found that such revelations are most damaging when a company's level of performance is seen as inferior to a competitor or industry benchmark. On the other hand, transparency that exposes a customer's own poor performance—for example, when your power company reports that you consume more electricity than your neighbors—can be a potent motivator of change. The effect can be especially powerful when the company reveals unflattering changes in your performance: You increased consumption by 5%, but your neighbors decreased consumption by an average of 3%.

It highlights a lack of progress. Uncertainty about our status makes our skin crawl. That's why progress bars are ubiquitous online, and why American, Delta, and United

Airlines now update the status of people's bags throughout their journey, providing mobile alerts when bags have been scanned, loaded, off-loaded, placed in baggage claim, and so on. We like to have the feeling of moving forward, and transparency that demonstrates the opposite can be frustrating. For example, in a recent experiment, I found that when people who have been waiting for service can see that nobody has joined the queue behind them, they're significantly more likely to give up waiting than if they don't know whether anyone else has joined. Making visible their lack of progress from the end of the queue leaves them wondering whether continuing to wait is worthwhile. On the other hand, when people who have been waiting for service are able to see that their time waiting has resulted in advancement from the end of the queue, they're significantly more likely to stay in line.

It reveals that the company's operations harm workers or the environment. News coverage of the 2013 collapse of Rana Plaza, which killed and injured thousands of Bangladeshi garment workers, and the 2010 Deepwater Horizon oil spill, which released millions of barrels of oil into the Gulf of Mexico, casts spotlights on inhumane working conditions and subpar environmental standards that reshaped corporate initiatives around supply chain sustainability. Visibility into such problems can cause a strong and swift customer backlash. To that end, transparency functions as a test of sorts: If you don't want people to see how you treat your employees or the planet, you probably need to make some changes. On the other hand, when transparency reveals that companies are operating sustainably, it can have a powerful effect.

Georgia Institute of Technology's Basak Kalkanci and I ran field experiments with Alta Gracia, an apparel manufacturer that pays a living wage to its workers in the Dominican Republic, and with Counter Culture Coffee, a North Carolina–based coffee roasting company that engages in environmentally sustainable practices. We collaborated with the Looma Project to produce a short video showing footage of working conditions inside Alta Gracia's factory and featuring interviews with workers discussing the living wage that Alta Gracia pays. We produced a similar video highlighting Counter Culture Coffee's environmental sustainability practices, such as composting the chaff from its roasting process to reduce landfill waste. Showing these videos at point-of-sale kiosks increased the probability that customers would buy the company's products by roughly 20%, relative to merely showing brand videos.

It's deceptive. Transparency is helpful when it reveals work, but when the illusion of transparency is used to deceive or manipulate, it can backfire spectacularly. When customers call AT&T or Apple to request customer support, the companies' automated systems play the sound of typing between prompts to signal that work is being done. Customers understand these cues for what they are and do not mistake them for the sound of an actual person performing a task. However, companies can easily stray into dodgy territory. For example, several years ago, a company called Premier Health Plans used software to speak on behalf of telemarketing agents who had heavy accents. Calls would typically start off with the agent identifying "herself" as Samantha West and asking an initial question, prompting customers to think they were engaging with a live customer service rep. However, awkward pauses between exchanges, the software's limited repertoire of phrases, and the mechanical word-for-word repetition that resulted during interactions caused skeptical customers to interrupt, asking, "Are you a robot?" Anticipating this possibility, the developers had included the recording of a disarming laugh and the response "I am a real person. Can you hear me OK?" Customers weren't buying it. Recordings soon emerged online of people interrogating Samantha West to expose her as a fraud.

Recently, Google announced its plans to roll out a much more sophisticated phone robot, called Google Duplex, that is fully automated and can pass as a human—calling restaurants and hair salons to make reservations and appointments on behalf of its users. The technology is breathtaking, and the potential for value creation is enormous, but unless Duplex is modified to be genuinely transparent, it's hard to imagine that those it deceives will be forgiving.

Bringing Operational Transparency to Your Organization

Given all the potential advantages and pitfalls of operational transparency, managers should be thoughtful about

Transparency implementations work best when they're visual—ideally giving customers actual windows into the process so that there's no question about the credibility of what's being shown.

how they implement it. They should consider the following factors in designing their initiatives:

What to reveal? A great place to start is to think about moments in the process that could be easily showcased with minimal effort. For example, one dessert-focused restaurant introduced operational transparency by suspending a tilted mirror from the ceiling above the pastry chefs who were plating and finishing desserts. Diners, whose views had been previously obscured by high counters and a bank of espresso machines, were captivated by their new window into the action.

Other opportunities for transparency can be found by considering what information already captured in the organization's databases would be appreciated by customers. For example, several years ago, as a part of its efforts to improve access to health care, the U.S. Department of Veterans Affairs began internally tracking how long veterans were waiting at each of its facilities to get an appointment to see a doctor. Recently, the agency made this information publicly available to patients on its website. Similarly, Quick Lane Tire and Auto Center, a nationwide auto repair company has been experimenting with providing a digital information board in its waiting rooms that gives customers real-time updates about what's happening with their cars and the current status of the service queue.

When to reveal? Transparency boosts value perceptions most when it reveals work as it is happening or just after it has been completed, rather than showing work that has not yet occurred. In my research, I've found that customers are more satisfied when a travel site like Kayak shows its efforts to find a flight *as it searches* dozens of airlines than when it merely tells customers before they hit the "search" button *that it will search* dozens of airlines. In addition, consumers shouldn't be force-fed transparency. Rather, they should get to decide when they want to see more. For example, UPS receives 143 million package-tracking requests on a typical business day—which converts to an average of about seven lookups per package. These requests are made by customers who are actively curious about the status of particular packages and are tracking them at times of their choosing. Imagine if UPS instead called you at its own discretion seven times per shipment with a running progress report.

How to reveal? Transparency implementations work best when they're visual—ideally giving customers actual windows into the process so that there's no question about the credibility of what's being shown. When this isn't possible, video or animated infographics and diagrams that provide a visual representation of the work boost the perception of value more than static imagery, which in turn, outperforms text descriptions. Transparency also works best when it's voluntarily provided by companies; transparency that is wrung out of corporations as a result of regulations, investor pressure, or other factors does not build trust.

Don't forget to close the loop. Transparency is the most beneficial when it's allowed to flow in both directions—from the customers into the operation and from the employees out to the customers. Forcing employees to toil in obscurity deprives them of seeing how their work is helping customers, reducing their feeling that their work is appreciated and undermining their motivation. What's more, transparency for employees can give them the information they need to customize service and help them learn better ways of operating.

IN A SENSE, today's businesses have become victims of the global economy's immense productivity gains over the past two centuries. Consumers today rely on a dizzying array of products that are manufactured and distributed from all around the world and on services that are delivered with an intensifying frequency. But the apparently effortless abundance and convenience also make it easy for consumers to take work for granted and for employees to lose out on the learning and motivation that customer connections afford. With that in mind, businesses should stop reflexively hiding their operations for the sake of efficiency and instead thoughtfully consider when and how to open them up to create more value for customers and employees alike. ⬡

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How to Lead Your *Rain-makers*

Laura Empson
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Collectively, dynamically—and very carefully

hen Daniel was elected managing partner of his consulting firm, his colleagues reacted enthusiastically. Relatively young and hugely energetic, he had quickly risen to prominence in his firm. He'd garnered widespread support among his peers, especially the younger partners, who felt that some of their older colleagues were "free riding" as they neared retirement. Clients had noticed a decline in the quality of the firm's work and were threatening to defect. During his leadership campaign, Daniel had outlined ambitious plans for reinvigorating the firm and restoring it to the number one position in the market. Flattered by his confidence in them and drawn to his vision for the firm, the partners elected Daniel by a substantial majority.

But 18 months later, the partners rejected Daniel's proposals outright and called for his resignation. What had gone wrong?

Idea in Brief

THE PROBLEM

Conventional leadership wisdom seems to fail in the professional service context. Trying to energize followers around a vision simply isn't enough.

WHY IT HAPPENS

The key asset of professional service firms is their highly expert and opinionated partners, who cherish their autonomy. As a result, a leader's authority is contingent on their consent, which may be quickly withdrawn.

THE SOLUTION

Recognize that leadership in professional service contexts is really a collective process, in which the designated leader must master three interactive dynamics: establishing legitimacy, maneuvering politically, and negotiating perpetually. At the heart of each lies a tension that the leader must constantly work to keep in balance.

In conventional corporate settings, leaders are expected to inspire and direct their employees—leading is something they do *to* followers. But in professional service firms, the leadership dynamics are different, because the power relationships are different. Consulting, accounting, and law firms and investment banks tend to be full of highly opinionated rainmakers, who don't easily accept the role of follower—and may be just as unwilling to act as leaders. In this context, leadership is a collective, not an individual, endeavor, created through interactions among powerful peers.

Power in organizations belongs to people who control access to key resources. In professional service firms those resources are specialized expertise, major client relationships, and reputation in the market. Firms may try to codify and capitalize on them, but they cannot exist independently of the people who possess them. In partnerships, which many professional service firms are, this is recognized in the firm's legal structure, because senior professionals own the business.

As a result, power is widely dispersed in professional service firms—autonomy is extensive, and authority is contingent. Senior professionals need considerable autonomy to customize services for their clients. And while they elect or appoint their peers to leadership positions, they cede authority to them only on a conditional basis, reserving the right to challenge, ignore, and even depose them.

That places severe constraints on professional service firm leaders, who are entirely dependent on the continued support of their peers to get anything done. As a partner in a Big Four accounting firm told me, among colleagues at his level, "frankly, nobody has to follow anyone." One senior partner of a law firm described the way he works with his fellow partners like this: "It's not telling them what to do; it's just coming up with the prompts and ideas. So leadership *sort of happens.*"

If you've recently taken on a leadership role at a professional service firm, all this may sound daunting. How can you actually get anything done?

I've been studying and advising the leaders of such firms for the past 25 years. My research includes two major UK government-funded studies of leadership and governance in professional service firms, involving interviews with more than 500 senior professionals from a variety of sectors in 16 countries.

Through this research, and with the help of my colleague Johan Alvehus at Lund University, I've identified three distinct yet interconnected dynamics—*establishing legitimacy, maneuvering politically,* and *negotiating perpetually*—that explain how collective leadership actually happens among professionals. At the heart of each lies a tension between the actions of people in leadership positions and how colleagues respond to and interpret their actions. These tensions create an inherently unstable equilibrium. To maintain a balance, firm leaders must work constantly with their colleagues to manage these tensions. In the following pages, I'll explain how they can best meet that challenge.

Establishing Legitimacy

In conventional organizations rising stars are often advised to demonstrate their potential by seeking out leadership responsibilities. But in a professional service firm, it's wise to be wary. When a boss invites you to take on a "leadership" role, he or she may simply be trying to off-load burdensome administrative responsibilities. You risk getting sidetracked from income-generating client work and being seen by your peers as a glorified administrator.

Another mistake that professionals often make is to believe they can rise up in their firms just by doing technically brilliant work—by being respected and recognized by colleagues as an expert. That's essential to surviving the progressive culls of staff in the early stages of your career, but the game changes as you approach the rank of partner. It's rare for technical specialists to move into senior leadership roles; the largest law and accounting firms are almost never led by the head of the tax practice, for example.

Among professionals, legitimacy as a leader ultimately depends on your ability to generate revenue—in other words, to be a good rainmaker. My research has found that the people who reach the top of professional service firms are outstanding at winning new business and at managing the most demanding and lucrative clients; they also work harder and longer at earning fees than their peers do (in an environment where extended hours are the norm). Because

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colleagues see them as role models, they're willing to cede authority to them.

The irony is that many of these role models have very little interest in becoming leaders. They want to focus on the thing they love best—their client work—and are reluctant to put themselves forward as potential leaders of their practice or their firm.

Christine is a classic example. One of the top rainmakers in her accounting firm, she sold the biggest projects to the best clients. But she was frustrated by the head of her practice area, who had introduced too many controls that got in the way of her client work. In the past Christine had deliberately avoided taking on leadership roles, but her colleagues now asked her to step forward and challenge the practice head—to dismantle his unpopular controls and restore their cherished autonomy.

Christine was reluctant, but when she realized the practice head was planning to seek another term, she let it be known she was interested in the position. That was all the encouragement her fellow partners needed. They lobbied the firm's senior partner, saying they had lost confidence in their practice head but were willing to work with Christine. As Christine explained: "People were drawn to me. I had followers before I went into a leadership role because I was the lead partner for a big client. So I created opportunities for people, I was successful, and they enjoyed working with me and my clients." In other words she was seen by her peers as a potential leader because she was successful in the market *and* because she was willing to share her success with them.

Yet, while this gave her the legitimacy to lead, it did not guarantee that Christine would be good at leadership, as she would soon discover. To run their firms effectively, professionals need to understand two other leadership dynamics.

Maneuvering Politically

Although I never asked interviewees specifically about office politics, they were often keen to tell me how much they abhorred political behavior. The chair of one consulting firm in my study declared: "To me, politics smacks of alliance building in the corridors, in offices behind the scenes, of people engineering agendas, which deliver a fait accompli. I would like to think we don't have those behaviors in this firm."

That chair may have been in denial or simply not telling the truth. In fact, political behaviors were rife in his organization—as they are in most professional service firms I've studied. This isn't necessarily pernicious. In an environment characterized by extensive autonomy and contingent authority, political maneuvering is simply how leadership happens. Leaders need to create and sustain consensus among peers and offer them incentives in private to persuade them to lend their support in public. To carry this off and maintain their authority, leaders need four core political skills: networking ability, interpersonal influence, social astuteness, and apparent sincerity. And many firms enshrine politics within their governance systems, holding elections for senior leadership positions in which candidates issue manifestos, run campaigns, and participate in debates.

Professionals distrust colleagues who seem to want power over them. It's OK to be ambitious for the firm, but you should not seem ambitious for yourself. So as a leader you need to convince colleagues that you're employing your political skills for *their* benefit rather than your own. If you can do that, then they will not judge you as political but will perceive that you have integrity.

One way to persuade your peers of your integrity is to develop and communicate a compelling vision for the firm. Consider Antonio, who was a partner at a large law firm. Although he led a relatively small practice, he had big ambitions and decided to run for senior partner. He campaigned against eight other candidates and worked hard to win support outside his practice. He met several hundred of his fellow partners, individually and in small groups, listening to their concerns and explaining how his vision would deliver what they most wanted.

At the candidates' debate, he gave a compelling speech, explaining his desire to unleash what he described as the partners' entrepreneurial potential by "giving the partnership back to the partners" and introducing an ambitious investment program to fund new partner-led initiatives. Impressed by what they saw as his passionate commitment to the firm and his belief in their ability, his peers elected him by a large majority. The integrity they perceived in
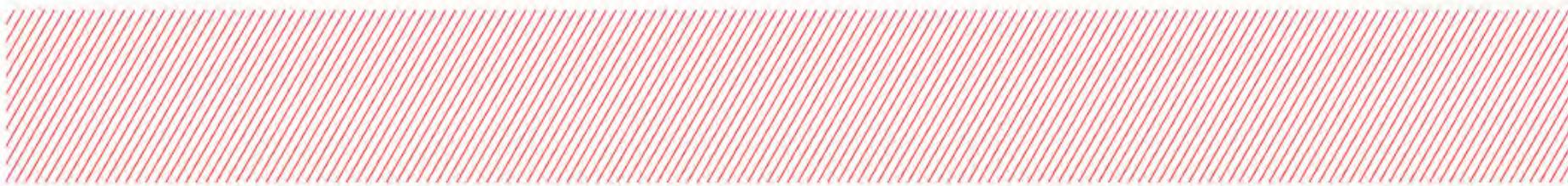
Guiding Principles for Leading in a Professional Service Firm

Focus first on the fundamentals. Your peers will accept you as a leader only if they recognize that you're at least as good at their job as they are. You need to establish a reputation for doing and winning outstanding work early on in your career. Once you're in a senior leadership role, don't become so immersed in it that you neglect to keep bringing in new business.

Hone your political skills. Understand the subtleties of organizational politics—don't assume that colleagues who do it well are not to be trusted. Think about the last time someone changed your mind about an important issue. What did that person say and do? Then think about what you did and didn't do the last time you failed to get something you wanted. Strategically influencing others doesn't make you insincere; it's just common sense.

Take time to build consensus, but be ready to assert control. If you have a strong vision, you may be in a hurry to implement it. Don't be. You'll need to win over competing interests, listen respectfully to objections, and give way to some demands (to prove that you're listening). Remain patiently on the sidelines while your colleagues exercise their prerogative to "mess things up," because they'll ultimately do better if they learn things for themselves. But you also have to take control at the right time, or colleagues will complain of a leadership vacuum.

Be ambitious for your firm (and for yourself). Your enthusiasm and concern for the firm must be perceived as genuine, regardless of the extent of your personal ambition. Make your peers believe that you care as much about their interests as your own.

Know when to be a good "follower." There will never come a time when you can safely stop stroking your colleagues' egos. The higher you rise, the harder you will have to work to convince people you haven't got "above" yourself. As a leader of a professional service firm you should aspire to be a few steps ahead of your fellow partners but also be able to judge when to step back and show you are prepared to follow the will of the partnership.

Antonio was evident in this description from one colleague: "He is not a player. His own motivations in this world are very genuine and clean."

There is a clear link between being a good rainmaker and being a good campaigner. Someone who has the networking ability, interpersonal influence, social astuteness, and apparent sincerity to manage powerful clients can also use those skills to manage powerful partners. But there's much more to leadership in a professional service firm than just that.

Negotiating Perpetually

Striking a balance between exercising autonomy and asserting control is far from straightforward. It involves perpetual negotiating—the third core dynamic of collective leadership in professional service firms. Knowing what actions to take is only part of the challenge. You need to understand when to take them, with whom, and how to persuade your colleagues that you're working in their best interests rather than your own.

For example, at the start of the financial year your colleagues may view your attempts to assert control as an unacceptable infringement on their autonomy. But if you wait for financial difficulties to become obvious, they may complain about a "leadership vacuum." If you challenge the inappropriate behavior of a popular and "colorful" partner, your colleagues may protest. But if you fail to reprimand a less likable, more marginalized partner for exactly the same behavior, they may raise questions about your moral leadership. One senior partner in my study explained the problem this way: "Partners say, 'You're too tight, get looser.' So you get looser, and they say, 'It's chaotic, get tighter.'"

One chairman compared the process to "walking a tightrope—helping my partners feel like owners, feel involved, and be engaged, but not dominating them, not getting out in front, and not having a huge ego, which makes them feel like the chairman's kind of off on his own trip. At the same time being strong and providing them with a sense of confidence that we're going somewhere."

Let's return to Daniel, the managing partner who struggled to fulfill his mandate and lost his peers' support. After winning the election, he hired a COO from the corporate sector to undertake a root-and-branch overhaul of his firm's cost base, with a focus on partner spending. Daniel personally led the task force that was redesigning the partner appraisal system, tightening up metrics, clarifying consequences of underperformance, and enhancing rewards for success. In other words he did exactly what his partners had elected him

to do: assert control by introducing more performance-oriented financial rigor.

During the election he had talked about making the "free riders" more accountable but had been vague on the details. Once he was in office, his colleagues started to wonder: Which partners did he think were free riders? How many were there? And what exactly did "more accountable" mean? Disaffected partners started whispering that Daniel seemed to be enjoying his new power a little too much and was not showing his peers enough respect. They encouraged colleagues to believe they might be the free riders Daniel was referring to. This whispering campaign was effective. When Daniel introduced the new partner appraisal system, his colleagues rebelled, and he was forced to abandon his plans.

Daniel had failed to understand that when his partners had asked him to assert control, they meant control over *their colleagues* but not over *them* personally. They were prepared to *cede* some autonomy but not to have it *taken away* from them. By rejecting his proposals, they were trying to teach Daniel a lesson—that as their elected leader he ultimately worked for them, not the other way around. But having positioned himself as the firm's savior, he had become convinced by his own rhetoric and thought he could do it on his own. He failed to understand that he needed to bring the partners along with him—that leading professional service firms is a collective endeavor, and the mandate to lead your peers must be continually renegotiated and renewed.

An Unstable Equilibrium

In addition to perpetually negotiating, the leader of a professional service firm must keep a constant eye on the other two dynamics, which are always in flux. To retain your legitimacy, you need to continue to be successful in the market, despite the fact that you can no longer devote yourself full-time to fee-earning work. You must constantly maneuver politically, as alliances shift among partners and their relative power waxes and wanes. And, remember, it's not just about what you do as an individual leader but how your colleagues interpret and respond to what you are doing (inferring you have leadership ability, perceiving you have integrity, and feeling free to exercise autonomy).

The instability is amplified by the fact that the three leadership dynamics are interconnected. If they discover your political maneuvering, your peers will quickly question your legitimacy. That will undermine your ability to negotiate the balance between control and autonomy, as will the failure to convince people you're acting in their interests rather than your own.

Remember Christine? Her colleagues wanted her to take over as leader of their practice because she'd been so successful at winning business. But she was quickly overwhelmed by the complexity of the new role and came to see why the previous practice head had seemed so controlling: There was a lot that needed to be controlled. She lacked the time and patience to manage the egos of the partners who had supported her and now expected her to support *them* in their pet projects and peeves. She became distracted from her client work, her core strength. And after she failed to land a couple of major new projects, her colleagues began to see her in a different light. They no longer inferred that she had leadership ability. As her peers withdrew their cooperation, Christine lost her authority and, with it, her ability to get things done. The equilibrium had become destabilized.

And what about Antonio? Fulfilling his election promise, he initiated ambitious spending plans. Profits plummeted, and as the clients became aware of the firm's difficulties, Antonio was unable to win new business. He lost his legitimacy as a leader and so was unable to negotiate effectively. But his political skills, which had helped him win his election against tough opposition, enabled him to save face. When a small group of influential partners called a meeting to demand his resignation, Antonio suggested a deal: He would complete his term as senior partner on the condition that one of them take over as COO to run the firm on his behalf. Rather late in the day, Antonio had come to understand the dynamics of collective leadership.

Collective Leadership in Action

What does collective leadership look like when it works well?

Peter and Paul, the senior partner and managing partner of a global law firm, displayed an intuitive understanding of
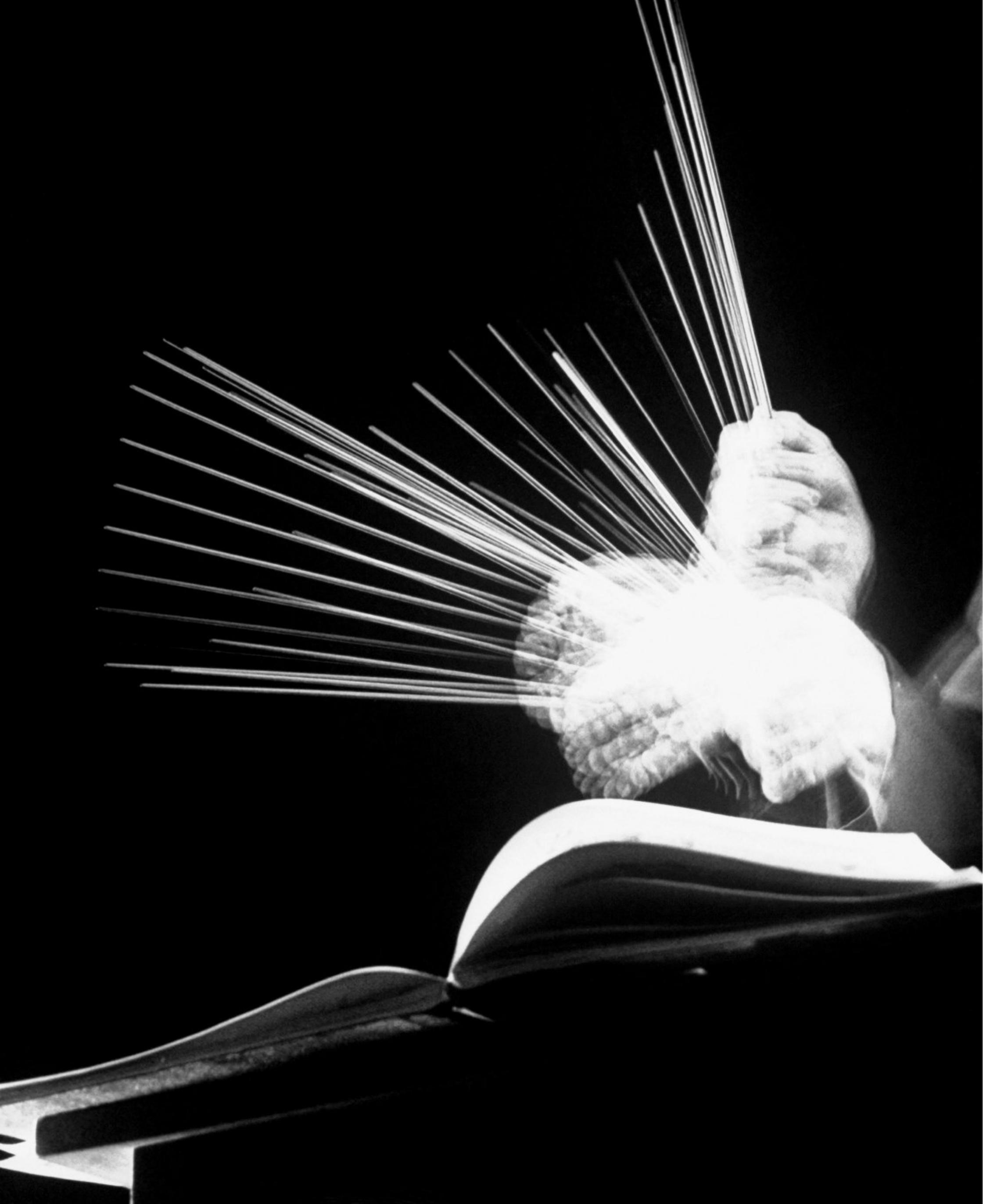
The leadership team of a professional service firm in effect includes all the partners; in some firms collective leadership requires input and support from many hundreds of individuals.

LEADERSHIP

collective leadership when they steered their firm through the greatest crisis in its 70-year history. After the 2008 financial crash, they realized that their firm had to undergo a major restructuring and that a substantial number of its 500 partners would need to be asked to leave. Nothing like that had been done before in the firm, and its rules of governance required that the entire partnership vote on a decision of that magnitude.

Peter and Paul had been among the firm's top rainmakers and were highly respected by their colleagues. Nonetheless, they realized that if they misjudged the mood of their partners and mismanaged the process, they would quickly lose their legitimacy to lead.

The two convened a small group of the firm's most powerful partners and asked them to work together to decide who among their colleagues should be asked to go. Over the next few months, working in secret, this group analyzed performance data and debated at length the list of candidates for departure. Many partners had worked together for more than 20 years, and some in the group resisted putting the names of longtime friends and colleagues on the list. But gradually, Peter and Paul drew more and more partners into the decision-making process, until eventually 50 of the 500 were involved in the secret deliberations.

Key to the process was the way Peter and Paul intervened selectively, allowing the extended group of partners the autonomy to lead the work but asserting control when they felt its members were not making sufficient progress.

Peter and Paul divided up their roles. As one colleague explained, "Peter worked behind the scenes, speaking to each of us privately and putting pressure on us individually as to whether we had gone far enough." This approach didn't always work, at which point Paul intervened directly. He said, "I really had to push to ensure there were enough names on the list. But as soon as we had an agreement, within a couple of days the list got shorter. I had to go back to them several times and say, 'This is not enough.'"

Finally, five months after the financial crisis began, Peter and Paul were ready to speak to the partners as a whole. During several hours of one-to-one calls and meetings around the world, they asked 15% of the partners—75 people in total—to leave or accept a reduction in equity. Later that afternoon, Peter and Paul called an emergency meeting of the partnership to announce the departures. Relieved they hadn't been selected, the remaining partners didn't insist on their right to call a vote about the restructuring.

Peter and Paul were successful because they had worked with an ever-expanding subset of the partner group, ensuring that powerful potential critics were co-opted into the process of making a profoundly difficult decision. Their own track record of market success gave them the legitimacy they needed to persuade colleagues to cooperate. Their political skills enabled them to maneuver their way around the competing views of their peers. And their sense of when to assert control and when to let colleagues exercise autonomy helped them negotiate their way toward consensus.

Although the story of Peter and Paul concerns a one-off crisis, it's important to remember that collective leadership is continuous. Leadership dynamics are constantly in flux as the equilibrium is destabilized and restabilized. Sometimes one individual may step forward and assume leadership, and colleagues will allow him or her to do so. At other times that individual may step back and become a good follower, even if he or she is nominally in charge. So collective leadership is not something that is done *to* followers but is a process done *with* colleagues.

The leadership team of a professional service firm in effect includes *all* the partners; in some firms collective leadership requires input and support from many hundreds of individuals. When you're a managing or senior partner, your peers may look to you to be their heroic leader, and you may be tempted to take up that mantle. But you need to keep reflecting the leadership challenge back onto them— to keep reminding them and yourself that leadership is a collective activity. If it feels lonely at the top, that's probably because you're not doing it right. ⬡

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The DUAL-PURPOSE PLAYBOOK

What it takes to do well and do good at the same time

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Illustrations by **JOHN W. TOMAC**

Idea in Brief

THE PROBLEM

Corporations are being pushed to dial down their single-minded pursuit of financial gain and pay closer attention to their impact on society. But how can a company balance the two?

THE RESEARCH

The authors have studied companies around the globe that pursue financial and social goals simultaneously. They find that the successful ones build a commitment to both economic and social value into their core organizational activities.

THE SOLUTION

Companies that want to do well and do good should focus on four key management practices: setting and monitoring dual goals; structuring the organization to support both goals; hiring and socializing employees to embrace them; and practicing dual-minded leadership.

Corporations are being pushed to change—to dial down their single-minded pursuit of financial gain and pay closer attention to their impact on employees, customers, communities, and the environment. Corporate social responsibility from the sidelines is no longer enough, and the pressure comes from various directions: rising and untenable levels of inequality, increasing evidence that the effects of climate change will be devastating,

investors' realization that short-term profitability and long-term sustainability are sometimes in conflict. For reasons like these, a growing number of business leaders now understand that they must embrace both financial and social goals.

However, changing an organization's DNA is extraordinarily difficult. How can a company that has always focused on profit balance the two aims? It takes upending the existing business model. Not surprisingly, researchers have consistently found that companies are quick to abandon social goals in the quest for profitability.

Yet some enterprises successfully pursue both. The U.S. outdoor-clothing company Patagonia, for example, which initially prioritized financial goals, has come to pursue social good more seriously over time. Others began with social goals but must earn revenue to survive. Grameen Bank, the Nobel Prize–winning microlender in Bangladesh, is an iconic example. We've spent a decade studying how socially driven businesses succeed, and what we've learned from in-depth qualitative studies and quantitative analyses may prove useful to traditional companies that want to adopt a dual purpose.

Our research reveals that successful dual-purpose companies have this in common: They take an approach we call *hybrid organizing,* which involves four levers: setting and monitoring social goals alongside financial ones; structuring the organization to support both socially and financially oriented activities; hiring and socializing employees to embrace both; and practicing dual-minded leadership. Taken together, these levers can help companies cultivate and maintain a hybrid culture while giving leaders the tools to productively manage conflicts between social and financial goals when they emerge, making the endeavor more likely to succeed.

SETTING GOALS, MONITORING PROGRESS

Dual-purpose companies need to set goals along both financial and social dimensions and monitor performance on an ongoing basis.

Setting goals. Well-constructed goals are an essential management tool. They communicate what matters and can highlight what's working and what's not. These goals should go beyond mere aspirations to clarify a company's dual purpose for employees, customers, suppliers, investors, and regulators. Companies may need to experiment their way to a goal-setting model that works for them—something Grameen Veolia Water has managed by continually recalibrating its activities around explicit aims.

The company, which provides safe water in Bangladesh, started in 2008 as a joint venture between Grameen Bank and the water services provider Veolia. Veolia, which traditionally works under government contracts, recognized that no local authorities were responsible for providing drinking water to rural areas at that time. The partnership aimed to fill this gap. Its board set two goals for the new business at the outset: to provide safe, affordable drinking water to the inhabitants of the rural villages of Goalmari and Padua over the long term, and to sustain operations from sales without relying on grants.

These two goals came into conflict. When managers realized how difficult it would be to break even if they sold water only to poor rural households at a very low price, they designed a new revenue-generating activity: selling water in jars to schools and businesses in nearby urban areas. At this point it might have been tempting to focus attention and resources on the profitable new market segment at the expense of the original one. But leadership did not drift. The venture's clearly stated social goal reminded board members and managers that urban sales were meant to subsidize village sales. Ultimately the former amounted to half the company's revenues, helping Grameen Veolia Water pursue its social goal.

No single playbook exists for setting social goals. But our studies point to two rules of thumb. First, *do the research.* Often leaders try to set goals without developing a deep understanding of the specific social needs they aim to address—or of how they may have contributed in the past to the buildup of problems. Just as they conduct market research to identify opportunities for profit, they should study those social needs. Their research should involve the intended beneficiaries along with other stakeholders and experts.

Prior to launching operations, Grameen Veolia Water conducted major research to understand water issues in

Bangladesh, interviewing public officials and health and water experts along with community organizations. Managers discovered that some rural populations suffered not only from drinking surface water contaminated with bacteria (the researchers' initial assumption) but also from drinking water from wells built in the 1980s. Some well water, although clear and tasteless, was naturally contaminated by arsenic and was a major source of cancers in adults and cognitive impairment in children. This information led the business to focus its activity in Goalmari and Padua, which suffered from both sources of contamination. The company thus defined its goal as providing permanent access to clean water for everyone in those villages.

Second, *set goals that are explicit and enduring* (though they may have to be updated in light of a changing environment). Impact would be limited if the village residents consumed clean water for just a few years; to achieve a significant positive change in their health, they would need access to clean water over decades.

Monitoring progress. Just as important as setting goals is identifying and adapting key performance indicators (KPIs) in order to measure the achievement of specific targets, be they financial or social. While we know how to measure sales, revenue growth, and return on assets, no widely accepted metrics currently exist for many social goals (although more progress has been made on measuring environmental impact). Nonetheless, it is possible to set both financial and social KPIs successfully. Our research has found that companies succeed by dedicating substantial time and effort to developing a manageable number of trackable metrics during the goal-setting process and revisiting them regularly to assess their continuing relevance and adequacy.

At Grameen Veolia Water, managers consulted with members of the rural communities they sought to serve and with academic experts before formalizing four KPIs: the company's self-financing ratio (its ability to fund planned investments from its own resources), the number of villagers with access to its services, the rate of rural penetration, and the rate of rural regular consumption (which captures both financial and social performance). The four numbers are updated monthly to monitor operations, and the board discusses them quarterly to guide strategic decision making.

A learning mindset is essential for developing and using KPIs. A willingness to experiment and change on the basis of experience, whether their own or others', helps businesses better understand social problems and how to address them. Dimagi's approach to setting social performance metrics exemplifies this mindset. Founded in 2002 and led by Jonathan Jackson, one of its cofounders, Dimagi provides software that NGOs and governments can use to develop mobile apps for frontline health-care workers in developing countries. At first Dimagi's primary social metric was the number of active users, which was meant to indicate how many people the technology positively affected. Jackson hoped to improve this metric, because it failed to distinguish between those who actually used the data to improve service delivery to patients and those who collected but did nothing with it.

The company formed a dedicated impact team to refine the social KPI. After exploration, the team created a metric— "worker activity months"—to measure the number of health care providers who were actually applying Dimagi's technology, and it implemented internal data systems to track the metric across all projects. But Jackson soon realized that this, too, was flawed, because the outcome was beyond Dimagi's control: How workers used the software depended more on the actions of Dimagi's clients—NGOs and governments— than on its own.

After reaching out to other social enterprises for advice, Jackson reverted to the number of active users as the company's primary social barometer, yet combined it with a new entity—an impact review team—that focused on qualitative quarterly analyses and discussions about the impact of all projects. These reviews ensure that a team doesn't focus unduly on the quantifiable aspects of a project (revenue, costs, completion dates) but also explores the effectiveness of its service delivery and how that could be improved to better support frontline health-care workers. The team discusses indirect forms of impact as well, such as helping organizations assess their readiness for digitization.

Other successful businesses also complement KPIs with in-depth qualitative assessments of their social performance. For example, the Brazilian impact investing firm Vox Capital hired Jéssica Silva Rios, an executive dedicated to understanding and measuring its impact, and recently made her a full partner. Some companies also incorporate external social indicators developed by independent NGOs such as the Global Reporting Initiative, the Sustainability Accounting Standards Board, and B Lab. For example, Vox Capital monitors whether its rating from the Global Impact Investing Rating System is above average in comparison with other funds in developing markets and adjusts the fees it charges investors accordingly.

> **Every time Revolution Foods sells a healthful meal to a school, two things happen: It enhances a child's health, and it makes money. The company's core activity thus creates both kinds of value.**

STRUCTURING THE ORGANIZATION

It's virtually impossible to succeed on financial and social fronts over the long run if the company isn't designed to support both. Achieving an effective design requires that you think about which organizational activities create economic value and which create social value, how those activities relate to one another, and how you'll try to balance them.

Aligning activities and structure. Some activities create social and economic value at the same time. Others create predominantly one kind of value. For activities that create both kinds, an integrated organizational structure usually makes sense. Otherwise the activities are often best managed separately.

Revolution Foods, founded in 2006 by Kristin Richmond and Kirsten Tobey, provides nutritious lunches to low-income students in the United States. Richmond and Tobey created the company to serve a social purpose, having witnessed how poor food options hold kids back in under-funded schools. Every time they sell a healthful meal to a school, two things happen: They enhance a child's health, and they make money. Their core activity thus creates both kinds of value. As a result, they opted for an integrated structure, with a single manager in charge of operational efficiency, business growth, and the promotion of child well-being. Account managers often engage students in nutrition education (either directly or through community organizations), introducing them to new foods and collecting their feedback on taste. The exposure to healthful foods enhances the long-term wellness of students and supports sales at the same time.

In contrast, the French company ENVIE learned over time that it needed to decouple the two kinds of activities. Launched in 1984, it had the goal of reintegrating long-term unemployed people into the job market by hiring them on two-year contracts to collect and repair used appliances for sale in secondhand shops. The company also provides support and training in how to repair appliances, how to look for a job, how to write a CV, and how to interview. The resale of appliances is what creates economic value. The training to enhance individuals' ability to find jobs outside ENVIE creates social value, but it doesn't make the company more profitable—in fact, it increases costs.

In the early years, staff members were asked to do two jobs: give beneficiaries technical guidance on how to repair or dismantle appliances (economic value) and provide them with social support (social value). However, it was difficult to find supervisors with both social and technical expertise. Even when they had both, the supervisors struggled to balance the two dimensions of their jobs. ENVIE's founders accordingly decided to set up separate organizational units, one for social support and one for repair, to be overseen by social workers and technical experts respectively. This increased the company's effectiveness in generating both kinds of value.

Creating spaces of negotiation. The rub is that tensions inevitably arise—particularly in differentiated structures. Left unattended, they can bring an organization to a halt. The Bolivian microlender Banco Solidario provides a cautionary example. In the 1990s constant resentment and fighting between bankers (concerned with fees and efficiency) and social workers (concerned with the affordability of loans and the livelihoods of microentrepreneurs) essentially froze the company. Loan officers quit left and right, the number of active borrowers plummeted, and the profit margin dropped. We've found that successful dual-purpose companies avoid such paralysis by supplementing traditional organizational structures with mechanisms for surfacing and working through tensions. These mechanisms don't make the tensions disappear—rather, they bring them into the open by letting employees actively discuss trade-offs between creating economic value and creating social value. Such deliberation provides a powerful safety valve and can speed up effective resolution.

Consider Vivractif, another French work-integration company. Founded in 1993, it hires and trains the long-term unemployed at recycling facilities. Those responsible for achieving one kind of goal or the other at the company often did not see eye to eye. While production supervisors managed workers to meet recycling targets, social workers were eager to take them away from the floor for mentorship and job-search training. The company set up quarterly meetings between the two groups so that they could discuss each beneficiary's progress and bring up coordination issues. Joint work planning allowed both to share important deadlines (such as for commercial deliveries or social

trainings) and to find joint solutions to scheduling conflicts. This improved productivity and furthered the company's social goals.

Spaces of negotiation can be successful in large companies as well. In one multinational cooperative bank headquartered in Europe, decision makers representing each of the local branches collectively make strategic decisions only after iterative debate, during which different groups of employees are responsible for championing either the social or the financial objectives of the organization. When individuals speak up about issues, their assigned roles prevent tensions from becoming personal.

HIRING AND SOCIALIZING EMPLOYEES

Embedding a dual-purpose focus in an organization's DNA requires a workforce with shared values, behaviors, and processes. Hiring and socialization are crucial to getting that right.

Hiring. Employees in a company that pursues dual goals tend to be successful when they understand and connect with both the business and the social mission. We've seen companies mobilize such people by recruiting three types of profiles: hybrid, specialized, and "blank slate."

Hybrid individuals arrive equipped with training or experience in both business and social-value fields, such as environmental science, medicine, social work, and so forth. Such people are able to understand issues in both camps and can connect with employees and other stakeholders of either orientation.

Jean-François Connan is a good example. He was recruited in the late 1980s by Adecco, one of the largest temp work groups in the world, because he had training in industrial maintenance and human resources and experience as a teacher and a mentor for at-risk youth. The company hired him to help address a long-standing problem: A large number of its temp workers lacked strong qualifications. Connan played a leading role in building a dual-purpose subsidiary for Adecco that helps the long-term unemployed reenter the job market by hiring them for temp jobs. His background lets him interact seamlessly with Adecco leaders and corporate clients as well as with local partners (such as nonprofits

dedicated to youth mentorship) and those whom they seek to serve. Now he is the company's head of responsibility and social innovation.

But hybrid employees aren't always available and may not always be the best fit. Dual-purpose corporations often hire *specialized* talent, which allows them to tap into deep expertise and networks in each area. The main weakness of this approach is that it is more likely to result in conflict between groups, which may not understand each other's norms, vocabularies, and constraints—especially if the organization separates economic activities from social ones. As a result, tensions and turnover in these companies tend to be higher than in those with an integrated structure, producing a negative effect on the bottom line.

To mitigate this at Dimagi, Jackson explains the primacy of the organization's social purpose on his very first recruitment call with a technical expert (such as a software developer). After hiring, he creates opportunities for the expert to learn about the social business through formal talks, informal office interactions, and even face-to-face fieldwork in the underserved communities with which Dimagi works. Vox Capital, too, has hired managers with technical capabilities (such as fund management) and no experience in a social-mission-driven environment. Yet it systematically screens applicants for their ability to embrace and thus adapt to the company's hybrid culture.

When companies recruit *blank slate* individuals, who have experience in neither business nor the social sector, they put them in entry-level jobs and help them acquire dual values and skills. The Bolivian microcredit lender Los Andes S.A. Caja de Ahorro y Préstamo, founded in 1995, took this approach, hiring university graduates with hardly any professional experience to become loan officers. The sense was that they would embrace a hybrid organizational culture more readily than experienced employees might. Of course, this approach has limitations. Taking inexperienced staffers into an organization may lower productivity. It also requires a considerable investment in training.

Although recruitment strategies obviously must be adapted to specific HR needs, we have observed that hybrid employees tend to be particularly well-suited for managerial and coordination positions; specialists can contribute useful expertise as middle managers in differentiated structures; and blank slates do best in entry-level jobs, where training won't be too challenging.

Socialization. Once people are on board, socializing them can be daunting. Every employee needs to understand, value, and become capable of contributing to both financial and social goals in some form.

Formal approaches to socialization may include companywide events such as annual general assemblies

and Carlos Orellana to provide high-quality, low-cost eye care to people who can't otherwise afford it. Although the pair saw economic goals and social goals as connected, they observed that some doctors focused only on patient care, and some managers considered only costs. So they formulated a set of core tenets and shared them at a daylong training for all employees, which clarified the interrelatedness of the company's financial and social aspects and gave employees a shared language for discussing tensions. Okhuysen and Orellana later instituted such sessions for new hires and continue to reinforce the training content in day-to-day interactions.

Spaces of negotiation can be valuable informal socialization opportunities, too. At Vox Capital a weekly time slot allows anyone to pose a question if he or she feels that the company's practices don't align with the organizational mission and values or is witnessing financial-social trade-offs. Employees haven't shied away from tough topics. Some have asked whether its investment portfolio sufficiently emphasizes the social missions of the businesses, while others have questioned whether the company's approach to raising capital is ethical.

Such conversations pushed cofounder Daniel Izzo to think critically about Vox's principles. "First I thought, It doesn't matter as long as [investors] don't have a say in what we do," he says. "But then someone asked, 'Would you take a drug lord as an investor?' Of course not. So there

and retreats where dual goals and values are explained, discussed, assessed, and put into perspective. Dedicated trainings can remind employees—particularly those who specialize in just one sector—of the interconnectedness of revenue-generating and social-value-creating activities. Job-shadowing programs and other forms of experiential training can also purposefully bring different groups together. At Vivractif social workers spend at least one day a year alongside recycling supervisors, and vice versa, so that each can learn and relearn about the company from the other perspective.

Another example comes from Oftalmología salauno, a Mexican company cofounded in 2011 by Javier Okhuysen

is a line. But where do we draw it? Do you take money from companies involved in corruption scandals in Brazil? Or from sons and daughters of top executives in those companies?"

Similarly, Bernardo Bonjean, who founded the Brazilian microfinance organization Avante in 2012, instituted a monthly breakfast where employees could come together and ask him questions. He also shares what's on his mind in letters to employees, discussing everything from the company's KPIs to his concerns about cash flow in the coming months. Okhuysen and Orellana put posters showing a matrix of Oftalmología salauno's four core tenets—commitment, service, reach, and value—in every meeting room. They can refer to these tenets when decision points arise, supporting a shared language among employees.

To encourage questions from employees, it's important to create an environment where people feel safe raising contentious issues. And when employees see changes in thinking and processes result from these discussions, they know that what they say is valued.

Events and conversations aren't the only ways to socialize employees. Promotion and compensation are also important. At the multinational cooperative bank mentioned above, being promoted to general director of a local branch requires excelling in business development, cost reduction, and profit making while also demonstrating a clear adherence to the company's social goals and a willingness to work collaboratively. One candidate for promotion commented, "I have seen many brilliant people fail because they did not embrace our values enough."

Vox Capital, like several other companies we studied, bases individual bonuses on both financial and social performance. Furthermore, Izzo is clear that he does not want the economic inequality that Vox is trying to redress in Brazil reproduced inside the company itself, so the maximum difference between employees' highest and lowest salaries and bonuses is capped at a multiple of 10. (In the United States in 2017 the average ratio of CEO-to-worker compensation was 312:1, according to the Economic Policy Institute.) Other companies, such as Revolution Foods, use shared ownership to motivate employees and increase their commitment to dual performance. Any full-time employee can become a shareholder through stock options. Richmond

and Tobey believe that sharing ownership with employees, many of whom live in the low-income communities the company serves, is integral to their social mission.

PRACTICING DUAL-MINDED LEADERSHIP

Leaders must manage the tensions that inevitably crop up on the path to achieving dual goals. These tensions often involve competition for resources and divergent views about how to reach those goals. Leaders must affirm, embody, and protect both the financial and the social side and address tensions proactively.

Making decisions. Strategic decisions should embody dual goals. Whereas goals reflect aspirations, decisions provide real evidence of leaders' commitment to achieving specific aims. The experience of François-Ghislain Morillon and Sébastien Kopp is a good example.

Morillon and Kopp created Veja in 2004 to sell sneakers made under fair trade and environmentally friendly conditions in small cooperatives in Brazil. When they realized that advertising accounted for 70% of the cost of a typical major brand's sneakers, they made the bold decision not to advertise at all. That allowed them to sell sneakers at a price comparable to what their bigger competitors asked despite having production costs five to seven times as high. To make up for the absence of traditional advertising, the company formed strategic partnerships with high-end fashion brands such as agnès b. and Madewell and stores such as the Galeries Lafayette to increase media exposure, grow sales, and become profitable.

At first Veja's clients—shoe retailers accustomed to the marketing of major sneaker brands—were skeptical. So Veja trained salespeople to educate them about the benefits of its product for people and the environment. Clients and the media now view the "zero ads" decision as evidence of the founders' commitment to their social goals, ultimately both giving the company social impact and making it profitable.

Morillon and Kopp also decided to temper the company's growth, despite increasing consumer demand in the United States. They refused to lower their fair trade and environmental standards to sell more shoes. Instead they decided to set production targets in keeping with the capacity of

> **Veja made the bold decision to do no advertising. That allowed it to sell sneakers at a price comparable to what its bigger competitors asked despite having production costs five to seven times as high.**

their fair trade partners while working closely with them to increase that capacity, ensuring a growth rate compatible with financial sustainability. That decision demonstrated, to employees in particular, the genuine commitment of Veja's leaders to their dual goals. In making bold decisions, the cofounders both emphasized the company's priorities and created the conditions for achieving them. They also showed that it's possible to avoid one of the most common pitfalls for dual-purpose companies: prioritizing profits over society when the pressure is on.

Profit allocation is another important area of strategic decision making. Dividends can be capped to ensure that financial goals don't overshadow social ones. When founding Oftalmología salauno, Okhuysen and Orellana pledged to reinvest 100% of their profits for at least seven years, so the investors they selected—a social impact fund, the World Bank, and a private wealth-management fund—knew that no dividends would be paid during that time. Okhuysen explains: "Our investors ultimately expect both financial and social returns on their capital. But the alignment between us around reinvesting profits to improve and grow our network of eye-care clinics has helped ensure that financial goals do not take precedence over our social purpose."

Engaging the board. In successful hybrid companies, board members serve as guardians of the dual purpose. Thus they must collectively bring a combination of business and social expertise to the table. Diversity on the board is important for drawing the organization's attention to both social and financial goals, yet it increases the risk of conflict, because members with different perspectives are more likely to differ as to the best course of action. We have seen some companies experience near-paralyzing governance crises when socially and commercially minded board members with similar levels of influence strongly disagree.

Yet other companies have managed to avoid such crises because a chair or an executive director systematically bridged gaps between the two groups. By fostering regular interactions and information sharing between them, such leaders enabled the groups to develop mutual understanding. Recall the subsidiary Jean-François Connan founded at Adecco. He invited representatives from prominent local nonprofits to join the board as minority shareholders, enabling the company to benefit from their social expertise,

networks, and legitimacy and helping to protect the company's social mission. His hybrid experience put Connan in a good position to bridge the gap between the two groups of directors, fostering common ground by constantly reminding each of the importance of the other.

SOME MAJOR ROADBLOCKS to dual-purpose organizing are outside a company's control. Chief among them is that the business ecosystem is still set up to prioritize the creation of shareholder wealth. The Global Reporting Initiative, the Sustainability Accounting Standards Board, and B Lab, among others, have taken steps to overcome some of these barriers. Each of them has created metrics for tracking companies' impact on the lives of employees and customers, the communities served, and the environment, providing organizations with benchmarks. What is at stake is ensuring that companies don't pick and choose areas of social focus on the basis of convenience.

Rating agencies are only one part of the ecosystem, however. Although more changes are under way—such as awarding legal status to public benefit corporations in the United States, community interest companies in the United Kingdom, and *società benefit* in Italy—the regulations, educational standards, investment models, and norms that govern the production of economic value and social value are still mostly distinct from one another. As an increasing number of companies engage in hybrid organizing, the systems that support business also need to change.

But changing organizations and the ecosystem that surrounds them is difficult. Companies must fight the inertia of inherited ways of thinking and behaving. Trade-offs and tensions are inevitable, and success is more likely when leaders address them head-on. The four levers we have outlined are meant to help.

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Experience

Advice and Inspiration

FACING YOUR MID-CAREER CRISIS

Should you cope or quit?

by Kieran Setiya

ABOUT EIGHT YEARS AGO I found myself living a cliché. A tenured philosophy professor at a respected university, I had the career of my dreams. I had made it through graduate school, the arduous climb of publish or perish, and the stress of seeking tenure and promotion. I had a wife, a child, and a mortgage. I was doing what I loved, and yet the prospect of doing more of it, week after week, year after year, began to

feel oppressive. I would finish the paper I was writing; I would get it published; I would write another. I would teach this crop of students; they would graduate and move on; more would come along. My career stretched before me like a tunnel. I was having a midlife crisis.

I quickly discovered that I was not alone. When I shared my plight with friends, they responded with jokes, but also with similar stories of burnout, stasis, and regret in the midst of what seemed like success. You may have heard the same from mentors or peers. You may be living this yourself. An abundance of recent research confirms that middle age is, on average, the most difficult time of life. In 2008 the economists David Blanchflower and Andrew Oswald found that self-reported life satisfaction takes the form of a gently curving U, beginning high in youth, bottoming out in our mid-40s, and then recovering as we get older. The pattern is robust around the world, affecting both men and women. And it persists when we correct for other variables, such as parenthood. The curve is gentle but significant: The average contentment gap between age 20 and about 45 is comparable to the drop in life satisfaction associated with being fired or getting a divorce.

The data on life satisfaction is consistent with earlier research specific to work. A 1996 article based on a survey of more than 5,000 British employees found that job satisfaction also took the form of a gently curving U, although the nadir came earlier, around age 39. And Elliot Jaques, the psychoanalyst who coined the phrase "midlife crisis" back in 1965, pointed

not to middle-aged patients having extramarital affairs but to dramatic shifts in the creative lives of artists from Michelangelo to Gauguin, who felt unfulfilled by their previous work.

The reasons for the "mid-career crisis" are not well understood. Why does job satisfaction suffer during midlife? Judging by my own experience, and by conversations with friends, there are multiple factors: the narrowing of options, the inevitability of regret, and the tyranny of projects successively completed and replaced.

Turning to philosophy for help, I found that although they have rarely addressed midlife by name, philosophers ancient and modern offer tools

for thinking through the shape of our careers and the attitudes we take toward them. These tools are therapeutic but also diagnostic. They can help you learn whether your malaise at mid-career is a sign that you need to change what you're doing or to change how you do it. Disruption can be a good thing, but it is not always feasible, and there are therapies for frustration and regret that can help you thrive even if you stay right where you are.

REGRETS ABOUT THE PAST

Some of the insights I gleaned from philosophy speak to the challenge of accepting what we cannot change. As
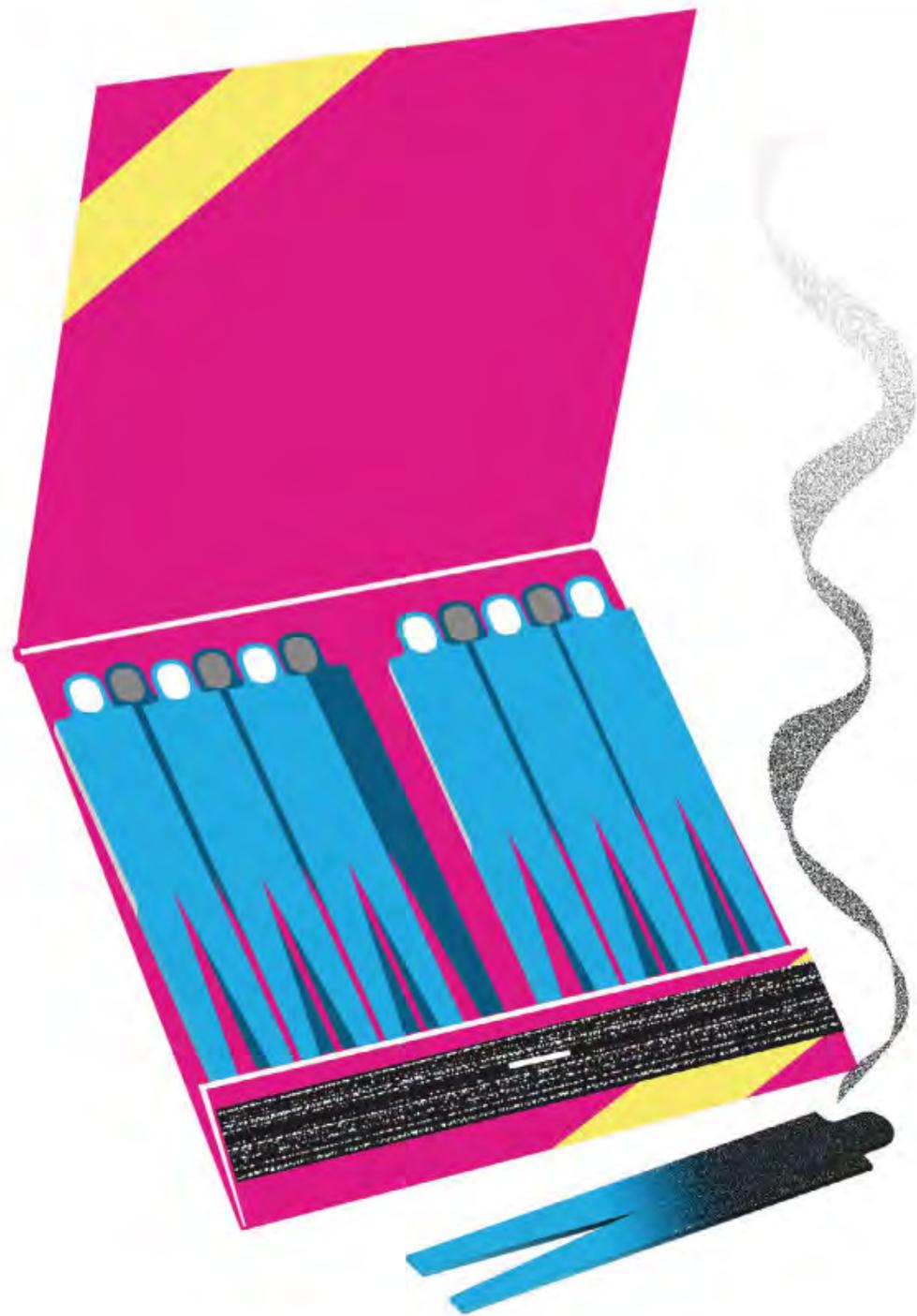
Why does job satisfaction suffer during midlife? There are multiple factors: the narrowing of options, the inevitability of regret, and the tyranny of projects successively completed and replaced.

life goes on, possibilities fade, options are constrained, and past decisions forge limits upon us. Even if we underestimate how much we can still do, we cannot avoid the fact that every choice results in the exclusion of alternatives. It is often in mid-career that we acknowledge the lives we'll never live and the pain of missing out.

In my case, I wanted for a while to be a doctor, like my father; then I thought of being a poet; by the time I went to college, I had picked philosophy. For the next 15 or 20 years, I didn't think much about alternatives. It is easier to get through graduate school if you don't. But at the age of 35, having jumped the hurdles of the academic racecourse, I stopped to take a breath—and realized I would never do many of the things I had wanted to. Academic employment is unusually linear and difficult to quit. Who readily gives up tenure? Realistically, I was not about to switch gears and apply to medical school or become a poet. I would later move from the University of Pittsburgh to MIT, but I would not leave academia.

Odds are, the pattern of your past career is more complex. The average 40-year-old has had a wider range of jobs. But the basic point remains. When we look back at our lives, we conjure—sometimes with relief but other times with regret—the roads not taken. Can philosophy help us come to terms with this?

I think it can. It does so by reframing the predicament of regret. Why do we feel a sense of loss about lives not lived or professions we won't pursue? We do so, even when things

go well, because the values realized by different choices are not the same. Worthwhile activities are worthwhile in different ways. Take a simple example: You could see a stand-up comedian tonight or go to the first game of the World Series. Even if you know that baseball is the right decision for you, you still experience a small-scale loss: If the comedian is here for one night only, you won't get to hear her perform. Career regret is the same phenomenon writ large. You may feel no pangs when two companies offer you similar positions and you take the one with the larger salary, but it's reasonable to experience loss when you choose a career in finance over one in fashion, even if you are sure you made the right call.

What this shows is that regret need not imply that anything is wrong. Even when outcomes are rosy, regret of a certain sort is appropriate and not something you should wish away. Regret shows that you value many activities. You would still experience it if you went into fashion instead of finance, though its focus would be different. The only way to avoid regret entirely is to care about just one thing, one metric to max out. But that would impoverish your life. Remind yourself that feeling you've missed out is the inevitable consequence of something good: the capacity to find worth in many walks of life.

MISTAKES, MISFORTUNES, FAILURES

All very well, you might say, except that there is another kind of regret—the kind we experience when things

do not go well. What about mistakes, misfortunes, failures? Every career has its wrong turns, and some have more than others. At midlife we find ourselves reflecting ruefully on what might have been. A friend of mine gave up a promising career in music to become a corporate lawyer. Ten years in, she found her work disappointingly drab. What haunted her was not so much wondering how to change tracks now but wishing she could change the past. Why had she made the mistake of giving up on music? How could she make peace with that?

Again, philosophy points the way. You have to distinguish what you should have done or welcomed at the time from how you should feel about it now. That the two can come apart is obvious when events don't unfold as expected. If you make a foolish investment but it happens to turn a profit, you need not regret doing something you shouldn't have. But even when there is no surprise, the feelings you should have after the fact may shift. The moral philosopher Derek Parfit imagined a teenage girl deciding to get pregnant and have a baby despite the instability of her life. It was, we may suppose, a poor decision, cutting short her education and beginning a long struggle to support the child. Years later, however, hugging her teenage son, she is grateful for him and glad she made what was, objectively, a mistake. Attachment to those you love can make it rational to affirm the past events—even inauspicious ones—on which their lives depend.

When my friend mourned her lost career in music, I reminded her that she would not have met her husband, and her daughter would not exist, if she hadn't gone to law school when she did. Love is a counterweight to regret. So is the fulfillment we glean from friendships, projects, and the activities we pursue. As the philosopher Robert Adams wrote, "If our lives are good, we have...reason to be glad we have had them rather than lives that would have been even better but too thoroughly different."

We live in details, not abstractions. Against the nebulous fact that you might have had a more successful career, you can place the concrete ways in which your actual career is good. As well as attachment to people, there is attachment to particulars—the interactions and achievements you would not have experienced in another life. When I think I should have been a physician, not a philosopher, and begin to regret my choice, I am ignoring the texture of my work and the countless ways in which the value of what I am doing is made vivid to me as I do it—in a student's progress, say, or in fruitful conversation with a colleague. It is the specifics that count against the grand cartoon of lives unlived.

This way of reconceiving your career has limits. There is no guarantee that every mistake can be affirmed in retrospect or that regret is always out of place. But regret that turns on the tendency to survey your life as if you were outside it can be muted by immersive attention to the people, relationships, and activities you hold dear and that depend on the career you chose.

ENNUI IN THE PRESENT

Accepting what we cannot change is only part of the problem we confront as we tumble down the U curve. For me, the deepest source of malaise at mid-career was not regret about the past but a sense of futility in the present. My work still seemed worthwhile: I saw value in teaching, researching, writing. Yet there was something hollow in the sequence of projects that loomed ahead. The prospect of doing one thing after another until I finally retired felt somehow self-defeating.

How can doing what is worthwhile seem empty? A first explanation turns on the notion of *ameliorative* value—the value of solving a problem or answering a need, even when the need is one you'd rather not confront. A lot of work is like this. You have to mediate conflicts between colleagues, deal with unexpected glitches in the rollout of a product, ensure that you comply with regulations. Although it is necessary, amelioration brings limited satisfaction. If the best we can do is fix mistakes, meet targets, or prevent things from going wrong, we have no vision of what is positively good. Why bother to work so hard?

One reason for a mid-career crisis is that too much of your time at work is spent putting out fires and avoiding bad results, instead of pursuing projects with *existential* value—the kind that makes life worth living. The solution is to make time for feel-good activities either in the office—for instance, by starting a pet project you've been putting off for years—or outside it, by reviving a favorite hobby or taking up a new one. This advice may seem mundane, but it has depth. Salsa dancing and stamp collecting are probably less critical than your job, but existential activities have value that ameliorative ones do not. You have to make room for such pleasures in your life.

There is a second explanation for the sense of emptiness at mid-career, which goes beyond the need for existential worth. When we look philosophically at the nature of projects and our investment in them—whether they are papers to grade, deals to broker, or products to design—we can discern a structural flaw. Projects aim at their own completion. When I focus on writing this essay, for instance, I focus on a goal that I have not yet achieved, which will be a memory the moment I am done. Satisfaction is always in the future or the past; no wonder the present feels empty. What is worse, if a project has meaning for you, not only is your fulfillment deferred, but engagement in the project destroys its meaning. In pursuing a project, you either fail—not good—or succeed and thereby terminate its power to guide your life.

One form of mid-career crisis turns on excessive investment in projects, prizing the next achievement and the next. But there is another way to be. Mindfulness is much in vogue these days, and you may roll your eyes at the mantra of "living in the present." I am not unsympathetic. When the slogan is detached from Buddhist ideas about the nonexistence of the self, it isn't obvious what remains. But living in the present has a clear, nonmetaphysical interpretation.

The key is to distinguish two kinds of activity in which we engage. Projects are *telic* activities, in that they aim at terminal states, not yet achieved. (The term comes from the Greek word *telos,* meaning "end" or "goal.") These activities aim at their own annihilation. You're preparing that client pitch and then presenting it; negotiating that deal and then closing it; planning the conference and then hosting it. Reaching the goal brings a moment of satisfaction, but after that, it's on to the next project.

Other activities are *atelic,* without a built-in end. Think of the difference between walking home and going for a stroll, or between putting the kids to bed and parenting. When you engage in atelic activities, you do not exhaust them. Nor do they evoke the emptiness of projects, for which fulfillment is always in the future or the past. Atelic activities are fully realized in the present.

At work we engage in both telic and atelic activities. You are, for example, writing an HR report (telic) and taking feedback from colleagues (atelic). Most telic work activities have meaningful atelic aspects: When you're working on that deal, you're furthering your company's growth strategy; when you're hosting that conference, you're engaging industry stakeholders. So you have a choice. You can focus on either the fixed activity or the ongoing one—the project or the process. By adjusting your orientation to become less project-driven, you can defeat the sense of emptiness in the present, without changing what you do or how efficiently you do it.

THIS BRINGS US back to the question of diagnosis. When is mid-career malaise a signal to change course, as opposed to changing how you think and feel? You may be unsatisfied professionally because your job is not a good fit for your talents, because your interests have shifted, or because the prospects for promotion are poor. But your dissatisfaction may also turn on problems of regret, or the

self-subversion of projects, that finding a new job would not address. Working through the strategies I have explored is a step toward determining which is the case. Are these strategies enough to reconcile you to the limitations of your career? If not, that is an argument for switching tracks. Midlife is not too late: The mid-career crisis can be a spur to radical, vitalizing change.

But even if you make that swerve, you shouldn't forget the tactics that got me through my own malaise and revived my enjoyment of work. Recognize that missing out is unavoidable and don't try to wish it away. Understand that attachment is a counterweight to regret. Make room for activities with existential worth. And value the process, not just the project or the product. ⦾

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SELL DIRECT-TO-CONSUMER OR THROUGH AMAZON?

AN E-BIKE MAKER WEIGHS THE TRADE-OFFS.

BY THALES TEIXEIRA

Sitting in his office, Mark Ellinas frowned at his computer screen.

It was filled with row after row of electric bikes, from expensive models to cheap knockoffs that seemed held together by spit and a prayer. Though they varied in style and price, the bikes did have one thing in common: where they were being sold. The website he was looking at, flush with options, was Amazon.

As the CMO of PedalSpark, a small maker of high-end electric bicycles, Mark was considering strategies for selling the company's new ride. The market for electric bikes had exploded in the past few years,[1] especially in China, and it showed no signs of slowing down. PedalSpark's signature bike, a $4,000 luxury model available only through the company's website, was selling well and had been named to a few "best e-bike" lists. Now PedalSpark was about to introduce a cheaper, entry-level model, which it hoped would have broader appeal. The bike was targeted at price-sensitive riders, people who were willing to trade higher battery life and motor power for a lower price tag.

Two years ago PedalSpark had hired Mark away from his marketing position at a children's bicycle maker. That company had sold exclusively on its own site, and Mark's expertise had served PedalSpark well with its first product. He was excited by the challenge of selling the new bike in an increasingly crowded market, but the question was how to do it.

His two direct reports were split. Gideon Bear, the sales manager, tended to favor aggressive approaches. He wanted to sell the new model on Amazon, which had, as he'd put it, "a few more customers than our site." But Tamar Nourse, the product manager who'd recently come on board, was worried about whether the bike would stand out on Amazon. She thought that keeping the new model on PedalSpark's site, where their team could control the entire sales process, would be better over the long term.

Bzzt. Mark glanced at his phone and saw a text from the CEO: *Where are we on the online channel strategy? Looking forward to your presentation.*

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The new model was almost ready, and the CEO wanted a decision soon. With the presentation scheduled in two days, Mark still had some time to think—but not much.

GIVING INFORMATION TO THE ENEMY

Mark closed his laptop and walked down the hall to Tamar's office. He knocked on the open door. "Hey, got a minute?"

Tamar looked up and adjusted her thick-rimmed glasses. "Hi, Mark. What's up?"

He sat down across from her. "So, about the bike. In the meetings with Gideon it feels like you've been holding something back. We have to make a decision, so I need you to tell me what you aren't telling me."

She took a deep breath. "Mark, I'm still new here, and I don't want to rock the boat. But I really think selling on Amazon would be a terrible move for us."

"Why, though?"

"The day we put the bike on sale, Amazon will start vacuuming up information about our customers, our margins, and the market's potential. If it ever decides to get into the e-bike business, we'll have hand-delivered all the data it needs to squash us."

"I know that worrying is part of your job, but is it possible you're being a little paranoid here?"[2]

"You should ask my B-school classmate Marta."

"Who is she?"

"A few years ago she was the founder and CEO of a successful start-up. She'd had an idea for a new kind of tablet stand. She spent a year developing a prototype and finding a manufacturer in China that would work with her. Then she started selling on Amazon. Now she's the former CEO of a company that doesn't exist anymore."

"Wow. What happened?"

"For about a year the tablet stand got great reviews and sold well at $40 each. During the back-to-school season, she was moving a few thousand a month. Then a bunch of copycat products started popping up. She had to fight them off as best she could. She complained to Amazon, but it didn't do anything, of course. Then Amazon-Basics debuted its new tablet stand.[3] It was a lot like hers, though different enough to avoid a lawsuit. It was also half the price."

"E-bikes are a lot more complex than tablet stands, though. What are the chances Amazon will make one of its own?"

Tamar's lips curled into a small smile. "I don't know, but if we went head-to-head against Jeff Bezos, would you put your money on us? Amazon's private-label products are projected to hit $25 billion in sales by 2022."

Mark shuddered. "A dark thought to have before lunch. How do you figure our chances against the existing competition?"

"We do have great bikes, but quality isn't enough on Amazon. Whatever your product is, there's always a cheaper version, and usually that's the one people buy. It's a never-ending, anything-goes price war there. I'm guessing that isn't what we want people to associate with our brand."[4]

Nodding slowly, the CMO rubbed his chin. "Good point, and I don't disagree. Gideon is pretty keen on the Amazon idea, though."

Tamar adjusted her glasses again. "I get why—more customers and more visibility. That may help us sell bikes in the short term, but what about the long term?[5] If people buy the new model on Amazon, will they be loyal to the maker or to where they bought it? We built the PedalSpark brand by selling the luxury bike on *our* website. Why try to fix what's already working?"

TRYING SOMETHING NEW

That afternoon, Mark asked Gideon to meet him in the cafeteria for coffee. The sales manager poured milk into his steaming cup and swirled it around with a straw. "Amazon, Mark. You know what I think. What are you thinking?"

"Undecided. There's a lot of risk in selling the bike there, but a lot of upside, too."

"Yes! I'm glad you see that. Amazon Prime has over 100 million members,[6] and it's growing. Imagine the sales if a fraction of them ordered the new bike—and imagine how many of them will if two-day delivery is available. Someone gets excited about e-bikes on a Wednesday, and by Friday she has one of her own to ride. The possibilities are endless."

"It's fun to daydream about, Gideon, but are we set up to handle higher volume and a shorter fulfillment window? Orders that come through our site have a shipping time of two weeks. I'm nervous about promising something

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1. *E-bike sales are projected to reach 40 million units by 2023; more than 34 million of those will be sold in China.*

2. *Amazon has a huge advantage over the merchants on its site. What else should Mark and PedalSpark's leaders think about to improve their chances of succeeding?*

3. *Amazon has about 130 private labels so far, in areas ranging from simple electronics to clothing to pet food to furniture.*

4. *If PedalSpark has to compete on price, what might be the consequences for its brand image?*

we can't deliver—and to a bunch of new customers, no less."

"But that's the beauty of Amazon," Gideon said, his voice rising in excitement. "We have options. I know I'm telling you your job right now, but we can sell product to Amazon for it to resell, or sell the bikes ourselves and let Amazon handle the warehousing and shipping, or list them on Amazon and ship them on our own. You're always talking about the value of running small, controlled experiments, so let's try one and see what happens. If it doesn't work, we'll switch tactics and adapt as we learn." He grinned. "Everyone in this company agrees we have a great new product. All I want is to get it to as many people as possible."

"There are three options, yes, but they don't give us a lot of wiggle room if things go badly. We may be able to play with the bike's price a bit, but we can't lower it that much or we won't make any money—and it could make us look cheap, too. I do think a higher price point is fair for the bike we're selling. Even luxury brands that sell on Amazon today hesitated about it for a long time, and it would be a good idea for us to think about why that is. The jury is still out on whether they benefit by being on Amazon."

"You know who sells on Amazon? Apple. Versace. Rolex. Jimmy Choo, Mark—Jimmy Choo. And more will follow. Whichever companies don't will be on the wrong side of retail history."

"We aren't Versace, Gideon. Besides, a lot of those brands sell a very small subset of their products on Amazon—and usually not their flagship ones. They save those for their own sites or stores, where they can control the buying experience. We're trying to raise our profile as a high-end brand, right? How would we look if we were one of dozens of e-bikes in Amazon's listings?"[7]

"Sure, but we already have the luxury bike selling well on our site. I agree, we shouldn't change anything there. But the new bike is for everyone. And everyone is on Amazon."[8]

Mark took a sip of coffee, thinking.

"Look, I get it, you have some concerns," Gideon continued, "so let's talk numbers. Based on what our competition is doing, I figure if we put the new bike on Amazon, we can reasonably expect to sell 10,000 units a year."

"At what price point?"

"$899. That's a little higher than we've been talking about, but it gives us some room to go lower if we need to."

"And what are the latest numbers for luxury bike sales on our site?"

"Last year we sold 2,000 units at $4,000 apiece. Remember, the new bike won't be only on Amazon. We'll sell it on our site, too."

Mark scratched his head. "What we really need is a way to quantify the risk that Amazon will enter the e-bike market. It would make this so much easier."

"That's the big mystery. Amazon will have all the consumer data, and we'll have very little of it. But look at it this way—there are already a lot of e-bikes on Amazon, so they're already watching the market. Even if they do make their own bike, that could be years away. We might as well find new customers while we can. People can't buy our bikes if they don't know about them."

Mark stared at Gideon for a long moment. "Let me ask you something. How are you so sure about all this?"

Gideon laughed. "In my moments of doubt, I think of Instant Pot. It's a quality appliance—not quite luxury, but good—that has a cult following and that made its name on Amazon. At one point, 90% of its sales were from there. Do you know how many Instant Pots were sold on Prime Day this year?"

"No, but I'm a little surprised you do."

"I cook a lot. The number, Mark, is 300,000. In just 36 hours. I think we could be the Instant Pot of e-bikes."

The CMO stirred his coffee. "You may be excitable, but I'll admit it's kind of contagious. I just can't shake the feeling that once we open the door to Amazon, there will be no closing it."

Gideon held up his coffee for a toast. "To opening the door—just a crack—and seeing what's behind it."

SEARCHING FOR ANSWERS

Back in his office at the end of the day, Mark was staring at his computer again. Tamar and Gideon seemed so sure of what to do, but the CMO was struggling to make up his mind.

The screen of his laptop still showed the Amazon site, with its rows of e-bikes. Sighing, Mark opened Google and typed "What are the dangers of selling on Amazon?" into the search bar. The query returned almost 250 million results.

"Hard to tell whether there are more horror stories or more success stories," he muttered. "Well, this bike isn't going to sell itself. I have to decide something, one way or another."

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5. *As the e-bike market continues to grow and mature, what factors will determine which companies succeed and which don't?*

6. *Of the U.S. consumers who make $150,000 or more, 70% are Amazon Prime members.*

7. *How might selling on Amazon help—or hurt—PedalSpark's image as a high-end brand?*

8. *When looking for a product online, more than half of consumers (54%) start with Amazon.*

SHOULD PEDALSPARK SELL ITS NEW, LOWER-COST BIKE THROUGH AMAZON?
THE EXPERTS RESPOND

PEDALSPARK SHOULD SELL on Amazon for as long as it makes sense. Amazon is using PedalSpark and other brands until it doesn't need them anymore, so PedalSpark should do the same with Amazon. Because the retail landscape is constantly changing, selling there in 2019 is very different from selling there two years ago. And in two years it will be different again.

If Mark and his team determine that margins on sales through Amazon now are good enough, they might as well test out the marketplace. Amazon does take a healthy cut of transactions and requires brands to pay just to be seen, so those margins could be slim. But the extra exposure might make up for it.

Mark will need to keep a careful eye on how his niche evolves on Amazon and how margins change over time, however. When—not if—selling on Amazon isn't profitable, he can pull the new e-bike from the platform and offer it exclusively on PedalSpark's site.

No matter what PedalSpark does, Amazon will get a ton of data on e-bikes and will jump in with its own products eventually. The company is known for its AmazonBasics label but has other, higher-tech house brands, and most consumers buy them without realizing it.

In fact, perhaps PedalSpark should try to sell its original luxury bike on Amazon instead. The margins on the new, cheaper bike will inevitably be lower, so why not put the established, high-end offering on Amazon and introduce new customers to it? That may cannibalize some sales, but so will other comparable offerings on Amazon, and in the meantime Amazon is an exponentially bigger market.

If the cheaper bike goes on Amazon first, that's what customers will associate with the firm's brand. Is that really what Mark and the CEO want? They need to think about the long term. They should use Amazon primarily to build the PedalSpark brand, with a view to driving customers to their firm's own site for future sales. Wisely using Amazon is not just about increasing short-term transactional volume.

This case study is loosely based on my experience as the founder of Tower Paddle Boards, a start-up that's one of the biggest success stories from the TV show *Shark Tank*. But when we started selling on Amazon, back in 2012, the market was new, there weren't many competitors, advertising wasn't required for visibility, and the margins on the site were much higher. It was just easier to succeed.

As Amazon evolves, it looks more and more like an online convenience store with traditional retail markups.

WHY NOT PUT THE HIGH-END OFFERING ON AMAZON INSTEAD?

It has everything—but it's getting too crowded. I suspect that many of the best brands will start to pull their products from the platform and return primarily to direct sales, as we did recently. Long term, the best value for consumers will be buying from direct-to-consumer-only brands. We're trying new ways of advertising and selling, and we're mapping out a future in which we'll be fine without Amazon. If you have a great product and know how to sell it, customers will find you, wherever you sell.

Stephan Aarstol is the founder and CEO of Tower Paddle Boards and the No Middleman Project.

Illustrations by **IRINA KRUGLOVA**

Gil Efrati is the chief marketing officer at Nectar Sleep.

BEFORE THINKING ABOUT selling on Amazon, PedalSpark has to build a brand customers recognize. If it doesn't do that first, its e-bikes may get lost in a sea of similar products on the site.

When you're a young consumer-product maker, success depends on differentiation—on the way you stand out. On its own site, PedalSpark controls the user experience and owns the sales process; it knows its customers, can promote loyalty, and can create scarcity by limiting the ways to get its product.

On Amazon that's all nearly impossible to do. These days the platform is essentially *the* product search engine. Shoppers love it because it lets them comparison-shop and has an easy checkout process, responsive customer service, and speedy, low-cost shipping. But they're loyal to Amazon, not necessarily the brands they're buying. And Amazon keeps their data and controls the relationship; the brands know very little about these customers and have no way to contact them to upsell them.

Gideon is right that Amazon offers access to a huge new market that cannot be reached any other way. There's no question it can be an extremely effective distribution channel for established brands. But PedalSpark must build its name so that it can operate from a position of strength. It needs customers to be searching not just for "e-bikes" but for "PedalSpark e-bikes." High-end brands can sell on Amazon because people are looking for an iPhone or Versace sunglasses, not merely browsing categories. Start-ups such as Warby Parker, Bonobos, and BarkBox have had more success with direct-to-consumer sales.

My company, Nectar Sleep, has begun selling some of our high-quality mattresses on Amazon, but we did so only once our brand was strong enough to succeed there. People do search for our products and give us good reviews, so we feel we can withstand the competition, even from Amazon, which sells mattresses through a private label. We work to offer a better customer experience on our own site, where the vast majority of our sales happen. When people buy from us directly, they get a 365-day trial, a lifetime warranty, and other benefits. Most important, we know who they are and can direct them to other products they'll like.

It sounds as if PedalSpark is doing a good job with its own online channel, but there's always room to improve,

CUSTOMERS ARE LOYAL TO AMAZON, NOT THE BRANDS THEY'RE BUYING ON IT.

whether by enhancing the user experience, offering targeted discounts, creating a bigger social-media presence, or doing guerrilla marketing.

If the goal is quick sales that boost cash flow, selling on Amazon will do the trick. But it won't necessarily lead to long-term growth and profitability. History shows that no strong direct-to-consumer brand has emerged by selling on Amazon. PedalSpark would be wise to create a loyal following and brand equity for its e-bikes before betting big on the platform. ⊖

HBR Reprint R1902M
Reprint Case only R1902X
Reprint Commentary only R1902Z

COMMENTS FROM THE HBR.ORG COMMUNITY

Low Risk in Reality
PedalSpark should sell the new e-bike on Amazon because the site can provide wider visibility. And even if Amazon decides to create its own e-bike, PedalSpark's biggest market (China) will not be affected because of Amazon's low presence there.
Francesco Luigi Milone, candidate for master of science in engineering and management, Politecnico di Torino

Not a Lot of Upside
Selling on Amazon has more pitfalls than opportunities. Amazon's policies are to its advantage, not the seller's. And unless you pay for top billing, people won't even know you're there until you're selling many units.
Josef Rosenfeld, president, Health Flavors

Too Much, Too Soon
While some major companies are listed on Amazon, they all have prominent brands. Since PedalSpark is still small and is slowly developing a following, it's too early to jump into a relationship with Amazon.
Sung Ung Choi, store associate, LotteMart

I'm a voracious consumer of news. I start early in the morning with a daily briefing e-mail from the *New York Times,* which is still, for me, the North Star. Typically, I have already read some of the top stories on the website the previous night. I also get e-mails from Axios, *Politico,* and *Vanity Fair*'s "The Hive." I still enjoy holding the print edition of the *Times* in my hand and seeing it organized into different sections, but I usually look at it at night. For magazines, I adore the *New Yorker*

and the *Atlantic.* Books I'm currently reading include Cynthia D'Aprix Sweeney's *The Nest,* a novel about a family obsessed with inheritance, and *These Truths,* by Jill Lepore, which is the first one-volume history of the United States written by a woman. I also read *The Great Gatsby* once a year—F. Scott Fitzgerald had a real journalist's eye—and my three-year-old granddaughter and I have *Madeline, The Little Engine That Could,* and *Goodnight Moon* in heavy rotation.

SYNTHESIS
RACE AT WORK

WE WON'T MAKE REAL PROGRESS TILL WE UNDERSTAND THE BARRIERS TO CHANGE.
BY SARAH CLIFFE

MORE THAN TWO decades ago, HBR invited 10 executives of color to a roundtable discussion of race in the workplace and published an edited transcript of their conversation. Recently I pulled that article out, thinking it would give me a sense of how the landscape had changed since 1997.

But when I read it, I was startled. The discussion

didn't feel dated at all. In fact, the topics those leaders addressed are completely of-the-moment. African Americans are *still* seriously underrepresented in the senior ranks of organizations. Hiring and promotion processes still favor people from the same racial, gender, and class background as the decision maker. People of color still have less access to

important social networks than whites do and still sense that white colleagues are surprised when they show they're competent, intelligent, and hardworking. Well-meaning white people don't think they could possibly be part of the problem. But rigorous research into implicit biases suggests that they're probably wrong.

These realities don't just create barriers; over time they wear people down. And they're made worse by the fact that the people with the power to improve things (most of whom are white) tend to be deeply uncomfortable talking about race in their own workplaces. So how can we begin to change the dynamic?

Over the years, HBR has published many articles about how to tackle these problems and increase diversity in organizations. But if you're an individual white manager, as I am, what can you do on your own? At a minimum, you can start to learn more about what it feels like to live and work in the United States when you're *not* white. Some recent books and podcasts can help.

The best-known of these is Michelle Obama's

terrific memoir, *Becoming.* There are two strands of the book. The first is a classic American success story. Born into a happy, tight-knit working-class family, Obama relied on innate talent, luck, community support, and her own drive to get a first-class education at a public magnet school and then Princeton and Harvard Law. She's a profoundly orderly person who fell in love with and married an idealistic whirlwind of a man and has since raised two delightful children with him. She's done work that makes a difference in the world. Oh, and she was the First Lady.

The other strand makes the story more complicated. Michelle Obama never has the luxury of forgetting about race. Some of this is personal, as when a cousin asks her why she talks "white." Some of it's systemic, as when her public school is starved for resources following the white flight from her South Side neighborhood. She writes about the time her brother was stopped by the police because he was riding a new bike. About the extra energy it takes to be the only person of color in a classroom or a boardroom.

Ian Dikhtiar/EyeEm/Getty Images

Illustration by **IRINA KRUGLOVA**

In podcasts, I'm addicted to *Slate*'s *Slow Burn*, which explores recent history. The first season focused on Watergate, the second on the Bill Clinton–Monica Lewinsky scandal. Returning to the *Times*, I like *The Daily* with Michael Barbaro, too. And NPR is always a nice, calm alternative to any other kind of talk radio. My son is in the music business, so I go to hear a lot of bands with him, most recently Perfume Genius. I love his taste. Listening to CDs at home, I've been on a big Ella Fitzgerald kick; she goes well with *These Truths*.

About the sometimes subtle, sometimes blatant attempts to make her and her husband into the "other"—him a Kenyan and a secret Muslim, her an "angry black woman."

Obama is matter-of-fact about all this. She has no self-pity and, in truth, very little anger, but she doesn't sugarcoat the reality that she and other African Americans live. She might say that it's just the tax she pays for being black in America. Still, it's a very high tax—one that's easy to forget if you don't have to pay it.

Obama is a pragmatist; Casey Gerald, in contrast, may be a genuine visionary. His beautifully written memoir, *There Will Be No Miracles Here,* builds on his famous TED talk. Like Obama, he describes a swift ascent from very modest circumstances, but he also makes a powerful argument for societal change. "I...made it to the mountaintop," he writes, "...and I have come with urgent news: we must find another mountain, if not another world, to call our own." It's worth noting that this apocalyptic tone—applied not just to race but to an array of ideas and institutions—was echoed in other upcoming memoirs from Millennial black writers that I looked through. Maybe that's a coincidence, or maybe it signals some interesting changes coming from a new generation of black intellectuals.

But let's get back to pragmatism. For a broad view of how people of color navigate the workplace, you might turn to *Let Them See You,* by Porter Braswell, cofounder of the job-search firm Jopwell. A self-help book aimed at professionals from underrepresented groups, it has the attention-grabbing headlines typical of the genre—such as "why you need a personal brand at work" and "your elevator pitch for diversity." But behind the zippy language is a sophisticated understanding of the challenges racial minorities face at work as well as a wealth of smart tips for flipping them to be an advantage. I'd recommend it not only to the target audience but also to white professionals interested in supporting a workforce that's more comfortably, productively diverse.

More insights can be gleaned from various podcasts. I particularly like *Code Switch* and *Still Processing;* neither focuses primarily on workplace issues, but both feature accessible conversations on race-related topics. NPR's *Code Switch* looks at how race, gender, ethnicity, and identity intersect in people's lives. (Episode recommendation: "The Code Switch Guide to Handling Casual Racism.") *Still Processing,* hosted by *New York Times* cultural writers Jenna Wortham and Wesley Morris, looks at news and pop culture through the lens of race. (Episode recommendation: "We Sink Our Claws into 'Black Panther' with Ta-Nehisi Coates.") In addition to great cultural commentary that offers a window into the nonwhite American experience, these podcasts offer a playbook for talking about race honestly, even when you're worried about saying something stupid or stepping on a land mine. They model the sort of behavior we need more of in the office.

Of course, educating yourself about others' experience is just a first step. It's on all of us to make sure that 20 years from now, HBR's 1997 roundtable sounds truly antiquated.

> **"It's remarkable how a stereotype functions as an actual trap.... When you aren't being listened to, why wouldn't you get louder?"**
>
> **Michelle Obama,** *Becoming*

BOOKS

Becoming
Michelle Obama
Crown, 2018

There Will Be No Miracles Here
Casey Gerald
Riverhead Books, 2018

Let Them See You
Porter Braswell
Penguin Random House, 2019

PODCASTS

Code Switch
National Public Radio

Still Processing
The *New York Times*

SARAH CLIFFE *is HBR's editorial director.*

EDUCATING THE NEXT GENERATION OF LEADERS

It's time to move beyond traditional approaches to executive education. To successfully meet the challenges of today's business world, organizations and the individuals who steer them should take more advantage of online learning resources and networking opportunities. page 39

THE FUTURE OF LEADERSHIP DEVELOPMENT

Companies spend heavily on executive education but often get a meager return on their investment. That's because business schools and other traditional educators aren't adept at teaching the soft skills vital for success today, people don't always stay with the organizations that have paid for their training, and learners often can't apply classroom lessons to their jobs. The way forward, say business professors Mihnea Moldoveanu and Das Narayandas, lies in the "personal learning cloud"—the fast-growing array of online courses, interactive platforms, and digital tools from both legacy providers and upstarts. The PLC is transforming leadership development by making it easy and affordable to get personalized, socialized, contextualized, and trackable learning experiences.

LEARN FROM PEOPLE, NOT CLASSES

To keep pace with change and avoid disruption, a business leader must constantly acquire new skills. But among the executives they know, little of this learning takes place in formal classes or programs, say Reid Hoffman, Chris Yeh, and Ben Casnocha. Instead, successful learners tap into *network intelligence,* seeking out one-on-one conversations with those who have faced similar challenges and can share valuable expertise.

"WE'RE GIVING OWNERSHIP OF DEVELOPMENT TO INDIVIDUALS"

A roundtable with current or former chief learning officers of Tata Business Excellence Group, American Express, and McKinsey & Company

HOW I DID IT

TRAEGER'S CEO ON CLEANING UP A TOXIC CULTURE

Jeremy Andrus | page 33

In October 2014 the author arrived at work to find one of his company's big-rig trucks aflame in the parking lot, obviously a victim of arson. This was an extreme manifestation of a corrosive problem: Traeger's culture had become poisonous, characterized by lack of trust, negative attitudes, and a stubborn refusal to collaborate. Very early in his tenure, employees would ignore Andrus when he asked for data, or simply refuse to work together on a project. Once, when he was visiting headquarters, the CFO said he couldn't find any time in his schedule to meet with the new CEO. Although the majority owner had no operating role, he talked daily to people at all levels of the company and was aggressive and abusive. People were afraid of him, but they acted as if he were in charge.

After the truck fire, Andrus resolved to start from scratch. He bought out the majority owner, moved the headquarters from Oregon to Utah, carefully winnowed the employees, worked to create a physical environment that feels true to the brand, and built a community of fans and influencers on social media. The company's strategy, marketing, and product line were all overhauled. In just five years, sales grew from $70 million to nearly $400 million.

HBR Reprint R1902A

MANAGING YOURSELF

FACING YOUR MID-CAREER CRISIS

Kieran Setiya | page 135

Research shows that many people—even those with seemingly enviable careers—grow dissatisfied in their jobs in their mid-40s. They may regret past choices or feel stuck in a rut. But Kieran Setiya thinks the tools of his trade—philosophy—can help. He says sadness about the road not taken can be mitigated by attending to the people and pursuits that we cherish and wouldn't have without our careers. He notes that we spend much of our work time solving problems and meeting needs, so we should engage in some feel-good activities (inside or outside the office). And he suggests focusing less on *projects* and more on *process*, to replace a "What's next?" mindset with an appreciation for the present.

HBR Reprint R1902L

STRATEGY	MANAGING CHANGE	INNOVATION	LEADING TEAMS

STRATEGY NEEDS CREATIVITY

Adam Brandenburger | page 58

When business school students are taught strategy, they dutifully study mapping the five forces, for example, and drawing a value net, but they know that game-changing strategies come from somewhere more creative.

To generate groundbreaking strategies, executives need tools explicitly designed to foster creativity. A number of such tools already exist, often in practitioner-friendly forms. They take their inspiration more from how our thought processes work than from how industries or business models are structured. Thus they can help strategists invent a genuinely new way of doing business.

The author explores four approaches to a breakthrough strategy: (1) *Contrast*. Identify—and challenge—the assumptions undergirding the status quo. (2) *Combination*. Connect products or services that seem independent from or even in tension with one another. (3) *Constraint*. Look at limitations in an organization and turn them into strengths. (4) *Context*. Consider how a similar problem was solved in an entirely different context—surprising insights may emerge. **HBR Reprint** R1902C

THE COLLABORATION BLIND SPOT

Lisa B. Kwan | page 66

Leaders are well aware of the central role that cross-group collaboration plays in business today. So in planning for collaborative initiatives, they think carefully about logistics and processes, incentives and outcomes. And that makes perfect sense. But in doing so they forget to consider how the groups they're asking to work together might experience the request—especially when they are being told to break down walls, divulge information, sacrifice autonomy, share resources, or even cede responsibilities. All too often, groups feel threatened by such demands: What if the collaboration is a sign that they've become less important to the company? What if they give up important resources and responsibilities and never get them back?

This is the "collaboration blind spot." To make sure collaborative initiatives are successful, leaders must first identify threats to group security and take steps to minimize them and discourage defensive behaviors. Only then should they focus on process and outcomes. **HBR Reprint** R1902D

THE INNOVATION EQUATION

Safi Bahcall | page 74

As start-ups grow into larger, more bureaucratic companies, they're more likely to favor safe, incremental innovation over riskier, potentially breakthrough work.

In addressing this problem, leaders often point to their culture as the key to driving radical innovation. But structural levers can also help growing companies avoid the shift from truly innovative to incrementally so. These include the extent to which compensation reflects the outcome of projects as opposed to rank within the organization; ratio of project-skill fit (how suited employees are to the tasks they're assigned) to return on politics (the benefits accrued by networking and politicking); management span (the number of direct reports per leader); and salary step-up (the financial benefits of rising in the hierarchy). **HBR Reprint** R1902E

THE RIGHT WAY TO LEAD DESIGN THINKING

Christian Bason and Robert D. Austin | page 82

The authors studied almost two dozen major design-thinking projects within large private- and public-sector organizations in five countries and found that effective leadership is critical to their success. They focused not on how individual design teams did their work but on how the senior executives who commissioned the work interacted with and enabled it. To employees accustomed to being told to be rational and objective, design-thinking methods can seem uncomfortably emotive. Being asked *not* to quickly converge on an answer can be difficult for people accustomed to valuing a clear direction, cost savings, and finishing sooner rather than later. Iterative prototyping and testing call on employees to repeatedly experience something they've historically tried to avoid: failure. Consequently, those who are unfamiliar with design thinking need guidance and support from leaders to navigate the landscape and productively channel their reactions to the approach. The authors have identified practices that executives can use to stay on top of such innovation projects and lead them to success. **HBR Reprint** R1902F

> "Hanging out in the minor league scene as a kid, I thought, 'This is the best job.' I didn't look at it as work. I saw it as getting to play a game for a living."

CAL RIPKEN JR.

In a two-decade career as an All-Star shortstop and third baseman for the Baltimore Orioles, Ripken played—at times alongside his coach and manager father, Cal Sr., and his second baseman brother, Billy—in a record-shattering 2,632 consecutive games, earning him the nickname Iron Man. Since retiring, in 2001, he has run a youth baseball organization and a charitable foundation.

Interviewed by Alison Beard

HBR: You were drafted into the minors at age 17. Was it a difficult transition?

Ripken: I was a little intimidated. I'd been a big fish in a small pond. When they assembled all the big fishes in the country, I felt pretty small. I had to gain my confidence day by day. My dad used to say to other players, "No matter where they put you, know you belong." At some point I looked around and thought, "I'm as good as this guy and that one." But it took me about a year and a half to feel that I had a chance to make it in the big leagues.

In your second season with the Orioles they won the World Series. How did it feel to get there so early but never again?

When you're part of a great team to start, you assume it will happen again. Then you come to appreciate just how difficult it is and how lucky you were to have experienced one. We did get to the playoffs in '96 and '97, but if I have one regret, it's that I didn't have enough chances to play in the postseason.

Were you ever tempted to take your talents elsewhere? The only time was when the Orioles fired my dad. He was a company guy, spent the first 14 years of my life in their minors, got called to the big leagues, and was next in line to be manager but was passed over when we had a good team. It wasn't until we failed and lost a lot of talent that they gave him the opportunity. We were in rebuilding mode, but nobody admitted it, so when we lost the first six games of the season, they fired Dad. Then we lost 15 more. I was a free agent that year, and people assumed I wouldn't stay. I was mad. But then I did some soul-searching: Where else would I want to play? It was still the place I wanted to be.

Did you mentor teammates? It's one thing to tell people what to do. It's another to help. You don't want to be critical or make someone feel bad. You don't do it in front of everybody. You maintain a rapport, do it one-on-one, offer your experience and understanding of the game, and make sure they know you're doing it for their benefit. I might pick a time in the batting cage or the training room and say, "I know it's hard. Trust me, I know. But you've got to force yourself to put forth the effort.

How did you adjust to new players? You have to be open-minded. For a shortstop, a second baseman is a critical coworker, and I had a lot of different ones. You just work through each play. If you get locked into why they traded that guy or didn't sign this guy, you're living in the past. You need to be in the present, looking at how, with this baseman, you can have as good a double-play combination as you had with the last one.

How did the streak develop? It wasn't a goal of mine to break Lou Gehrig's record. But I thought it was my responsibility to always be ready to help us win, so I never said, "I need a break." I wanted the manager to put me in if he thought I could perform. It's funny, though: When you play a full season and finish strong, you prove that any problems you have aren't because you're fatigued. So you start to look for real solutions in your swing or your defensive play, and you improve.