Ideas that Transform

The Best of Ivey Business Journal - 2011-2012

Ivey Business Journal

From the Editor

As the Editor of Ivey Business Journal (IBJ), I have interviewed notable public intellectuals, management thinkers, academics, and CEOs. In researching and identifying topics and authors, and in discussing an approach to an article on say, strategy or leadership, I have been intellectually enriched and engaged beyond anything I might have imagined. It makes me think of all the articles about how to engage employees that have been published in IBJ – and about how fortunate I am.

If you glance at a year's worth of articles that have been published in IBJ, you will see a rich resource of intellectual capital. Importantly, it's intellectual capital that can be very well spent – applied to solve a particular organizational challenge or to inform a difficult decision. We live in the Knowledge Economy, and when you skim some of the articles, you'll discover some of the most potent ideas and practical, winning theories that you can apply to your own situation or organization.

The topics in this "Best of Ivey Business Journal" – strategy, innovation, leadership, sustainability and others – reflect the wide range of articles that appear in each issue of IBJ. They also exemplify our credo: "Improving the practice of management." If you read these and other articles regularly, I thank you and hope that you will continue to do so. If you don't, please join us by visiting www.iveybusinessjournal.com, and click "Subscribe." And watch for the next collection of "The Best of Ivey Business Journal."

Stephen Bernhut
Editor

From the Dean

Flux, complexity and inter-connectedness are the constants in today's business environment. For any business leader, managing the enterprise in such a dynamic environment is the supreme challenge. But just where does that leader go to discover the best practices and strategies for steering the enterprise in such a challenging environment?

True to its slogan, the Ivey Business Journal (IBJ) has been helping leaders "improve the practice of management" for 85 years. From the smokestack era to the Knowledge Economy, and from hewers of wood to designers of microchips, IBJ has been there, providing leaders and managers with the best in management reading.

IBJ (originally known as the *Business Quarterly*) is the oldest business publication in Canada, and over the years it has provided readers with the analysis and solutions they need. A visit to the archives is a voyage of discovery. Search even the past few years and you'll find articles by some of the brightest minds and most stimulating thought leaders in the top business schools around the world, as well as by some of the most thoughtful and successful business practitioners.

Selecting the "Best of" the articles that have been published in IBJ is both enviable and unenviable. It is the former because trying to select the best of many articles, for example on innovation, is to take a dip into a rich reservoir of intellectual capital. It is unenviable because, as careful as one tries to be, how can you really isolate one or two articles that stand out among a list of 50 articles that are uniformly excellent?

If this is your first encounter with IBJ, I hope that you will become convinced to spend more time reading the next issue and the others that are published every two months. If you are a subscriber, reading – or re-reading – the articles in this "Best of" will, I hope, remind you that IBJ is one of the small but rewarding pleasures of business life. Stay with us as we continue to deliver the best in management writing and thinking.

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Go Tell it On the Mountains: How Word of Mouth Can Lead to Buy-In of a Technology

Properly conveyed and clearly communicated, word of mouth can become a terrific tool to enhance the adoption of a particular change such as the introduction of a new technology. Focusing on the two most critical stages of the adoption can enhance the possibility of success even more. Readers will learn how to achieve these goals in this article.

by Deborah Compeau and Phoebe Tsai

Consider this scenario: Carol, Ben and Adrian are business analysts in a large retail organization. One day, Adrian stopped by Ben's office to chat about getting a new laptop. Ben's officemate Carol, overhearing their conversation, joined the chat. Wanting information on a specific model, she clicked OneNote, software that manages various documents for easy search and quick retrieval. Adrian had heard about OneNote, but this was the first time he saw what it could do. After he saw Carol use OneNote to quickly retrieve a note she kept about the latest laptops, he walked away, thinking, "That is handy." He still wasn't sure which laptop to buy, but he learned something about OneNote, and even wanted to use it to manage his meeting notes.

This scenario illustrates the important role of Word-Of-Mouth (WOM) – or social interaction – in the diffusion of an innovation, where an informal social interaction becomes an opportunity for an individual to learn about a new technology by talking with or observing others. The process is casual, natural, and potentially influential in shaping or changing the individual's beliefs about the new technology. This article will describe how social interaction influences the adoption of a new technology and other innovations.

SOCIAL INTERACTION AND INNOVATION

Social interaction is critical in the diffusion of all innovations. For example, consider the case of a typical solar panel adopter demonstrating the new equipment to six peers (Rogers, 2003). In the research, Rogers identified the five stages of innovation diffusion that an individual experiences over time: knowledge, persuasion, decision, implementation, and confirmation. Rogers found that it is during two of these stages, knowledge and persuasion, that the individual processes information about the innovation from various social sources (e.g., social circles, mass media) before forming a concrete idea about the innovation.

Rogers' model is useful for describing how an innovation is diffused in a social system. When it comes to technology, however, managers must consider other factors before deploying Rogers' insights to tip the success of implementation in organizations. First, we must recognize that the adoption and the implementation of a new information technology (IT) is a specific instance of organizational change. It inevitably generates uncertainty on issues that are highly relevant to employees, such as changes in the workload or even employment stability (Kiefer, 2005). This uncertainty gives rise to various negative emotions in employees, such as anxiety, annoyance, and anger, none of which contribute to technology acceptance or workplace morale. It remains unclear as to how managers can take advantage of scenarios similar to the interaction between Adrian, Ben, and Carol, and plant the seeds for the acceptance of a technology through social interaction. We suggest several ways that managers can do so in the paragraphs below.

METHODOLOGY

In our most recent study, we examined the influence of both formal and informal communication on employees' acceptance of a new technology. First, we conducted an in-depth case study in a community health organization to identify the components that were most relevant to social interaction during the knowledge and persuasion stages of technology adoption. The five key components are:

- **Social information.** The information that an employee processes may be summarized as the product of two types of communication. These are formal communication initiated by management through face-to-face meetings or communication technologies (e.g., electronic bulletin), and informal communication, the daily social interaction in the form of word-of-mouth.

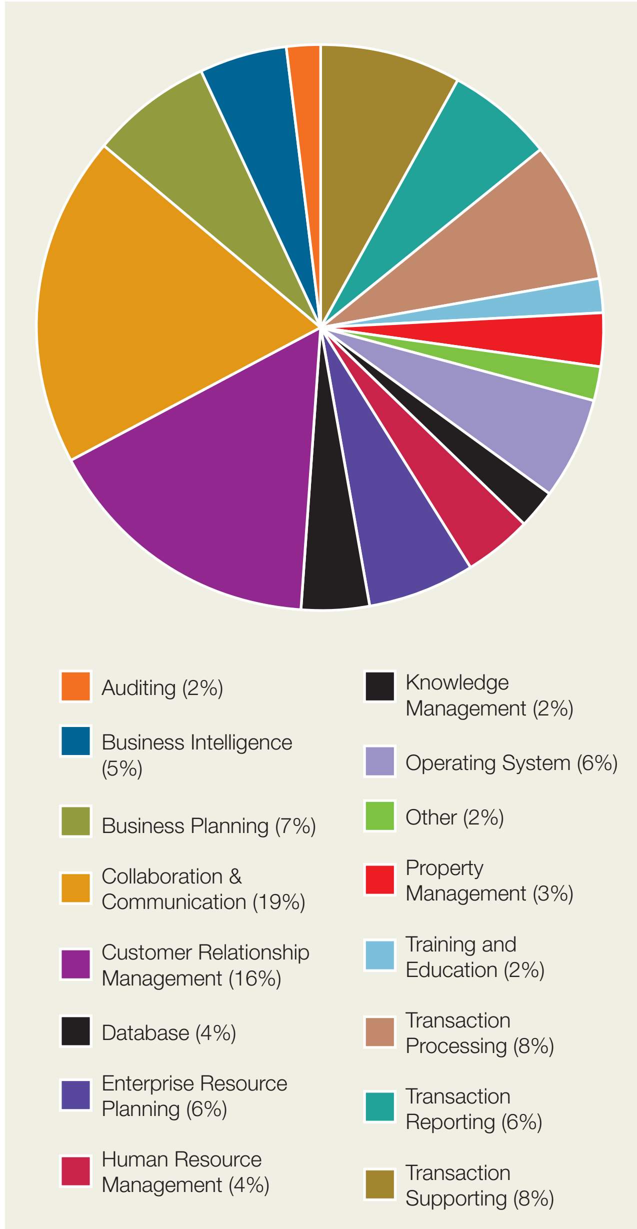
- **User belief.** We selected the four most critical beliefs that an employee holds regarding the adoption of a new technology: Perceived Usefulness, Perceived Ease of Use, Perceived Resources (i.e., the perceived availability of resources that support employees to use the technology successfully), and Subjective Norm (i.e., perceived expectations from others on the individual to use the technology).
- **User emotion.** Employees may experience a broad range of emotions when adopting a new technology, ranging from enthusiasm, indifference, to anger (Klein and Sorra, 1996). Based on the findings of the case study and the literature review on organizational changes, we chose enthusiasm and anxiety to represent employees' emotion.
- **Usage intention.** The focus of technology-adoption research is on an individual's decision to adopt the technology. Therefore, we used Intention to Use the Technology as one outcome variable.
- **Coping intention.** In the case study, we observed employees' stress responses triggered by the coming of a new technology, as well as the various coping strategies (e.g., humour) deployed in the attempt to regulate the negative emotions. We were particularly intrigued by the strategy of Seeking Social Support in the case study, because this strategy is highly relevant to the information exchange and processing during the innovation diffusion. It is defined as the intention to reach out to others in order to cope with the anxiety associated with the new technology. We incorporated Intention to Seek Social Support as another outcome variable.

Once the above five components and their pertinent variables were identified, we then examined the inter-relationships among the variables, with field data collected through an online survey. We invited a random sample of 1445 actively-employed alumni of the Richard Ivey School of Business to fill out the survey.

KEY FINDINGS

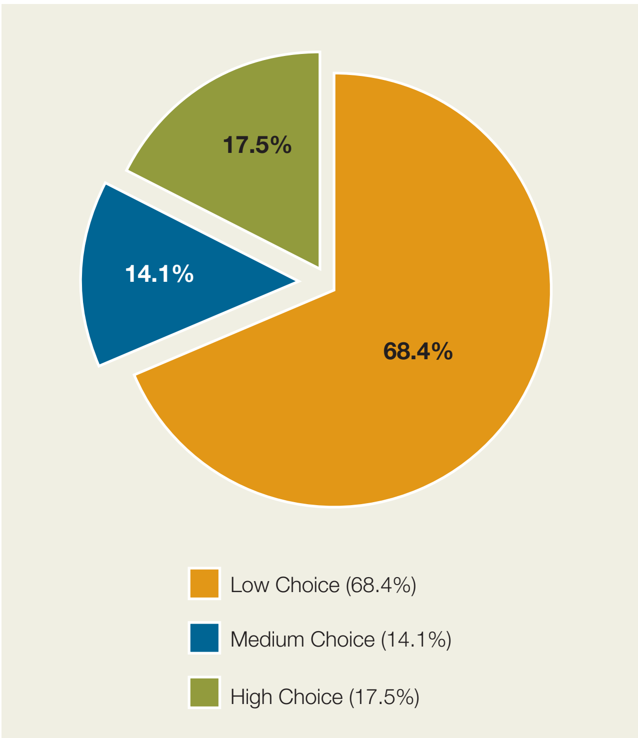
Almost half (47.7 percent) of the 241 people who responded were experiencing the implementation of one or more new technologies at work. This means that at any point in time, one organization in two will be experiencing a change in work based on the rollout of a new technology. The type of technology ranged from knowledge management, transaction processing, analysis and reporting (e.g., SAP), to communication and collaboration tools (see Figure 1).

Figure 1: Percentage of Technology Types



These new technologies were, for the most part, mandatory for the employees. To the statement "I can easily avoid the usage of this new technology for my job", for example, 17.5 percent of the respondents moderately or strongly agreed (see Figure 2). In other words, less than 20 percent of the respondents were in the high-choice group. The majority (68.4 percent) had to use the new technology in order to remain competent at work.

Figure 2: Percentage of Levels of Choice in Using the New Technology



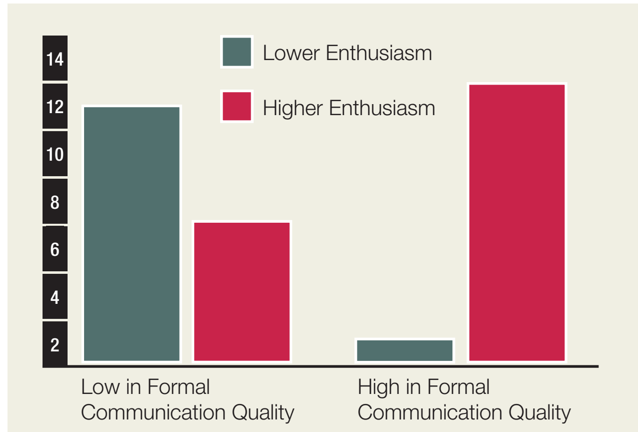
FORMAL COMMUNICATION

If employees are to feel fully informed, formal communication should include the following:

- What the technology is, in terms of its functionality, capacity, and visual layout,
- Why the new technology has to be adopted,
- How employees' future working condition (e.g., work load) and personal status in the organization are affected, and
- When various implementation activities (e.g., training) will occur.

Before managers make an announcement concerning a new technology, they should first gauge how well these four aspects are communicated. If one or more of the four aspects is communicated poorly, it may lead to employees' anxiety toward the adoption of the new technology. When the four aspects of information are thoroughly delivered in a timely manner (i.e., high-quality of formal communication), employees are more likely to become enthusiastic about the new technology (see Figure 3). In addition, they are also more likely to believe that the technology is going to be useful and easy to use, that their usage will be supported with resources, and that other people expect them to adopt the technology.

Figure 3: Formal Communication of High Quality is Related to Higher Enthusiasm



So why don't more managers communicate like this? Research has shown that poor communication regarding changes in organizations actually results from good intentions (DiFonzo and Bordia, 1998). That is, managers are often silent about changes only because they do not want to mislead employees by giving out (incomplete) information that may be subject to change. In other words, because we know change is stressful, we tend to avoid saying anything that might increase stress until we are sure about what will take place. But doing so actually has the opposite effect: It increases stress because it promotes greater uncertainty.

To curb the tendency to remain quiet, managers should, "Tell employees what is known. Answer questions that can be answered and explain why others cannot be answered" during system implementation (DiFonzo and Bordia 1998, p. 299). To minimize users' negative reaction when information changes (which it inevitably will in a complex project), managers should acknowledge that certainty or uncertainty underlies the information. Giving your best estimate of what you think will happen today, and acknowledging when/why you think it might change will satisfy the short-term need for information, while creating the expectation that things are subject to change. In brief, timely and thorough communication initiated by management plays an important role in stimulating enthusiasm among employees, whether the technology is mandated or discretionary. After all, enthusiasm is the essence of buy-in. When employees are enthusiastic about a new technology, adoption will follow more naturally.

INFORMAL COMMUNICATION

Informal communication – in the form of favourable word-of-mouth about the new technology – has a similar effect in boosting employees' enthusiasm. We also found that positive word of mouth alleviates anxiety in the information recipient (see Figure 4). In addition, those who heard favourable word-of-mouth are more likely to believe that the new technology is easy to use, and that there will be sufficient resources to support such usage.

Figure 4: Favourable WOM is Related to Lower Anxiety

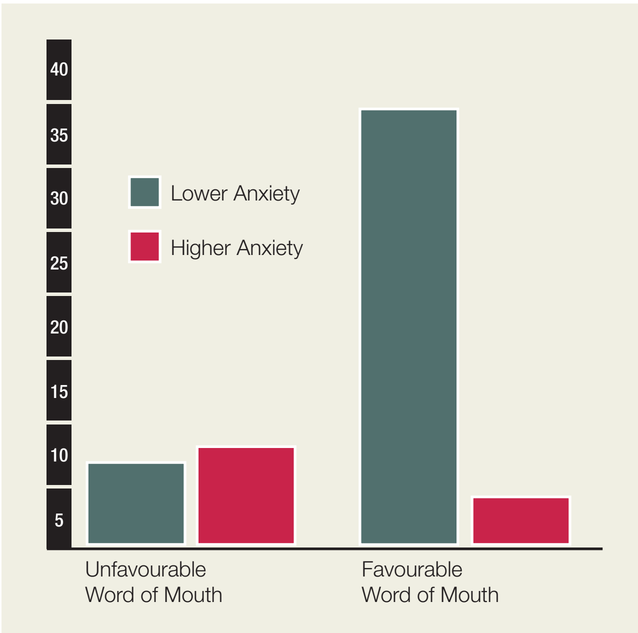
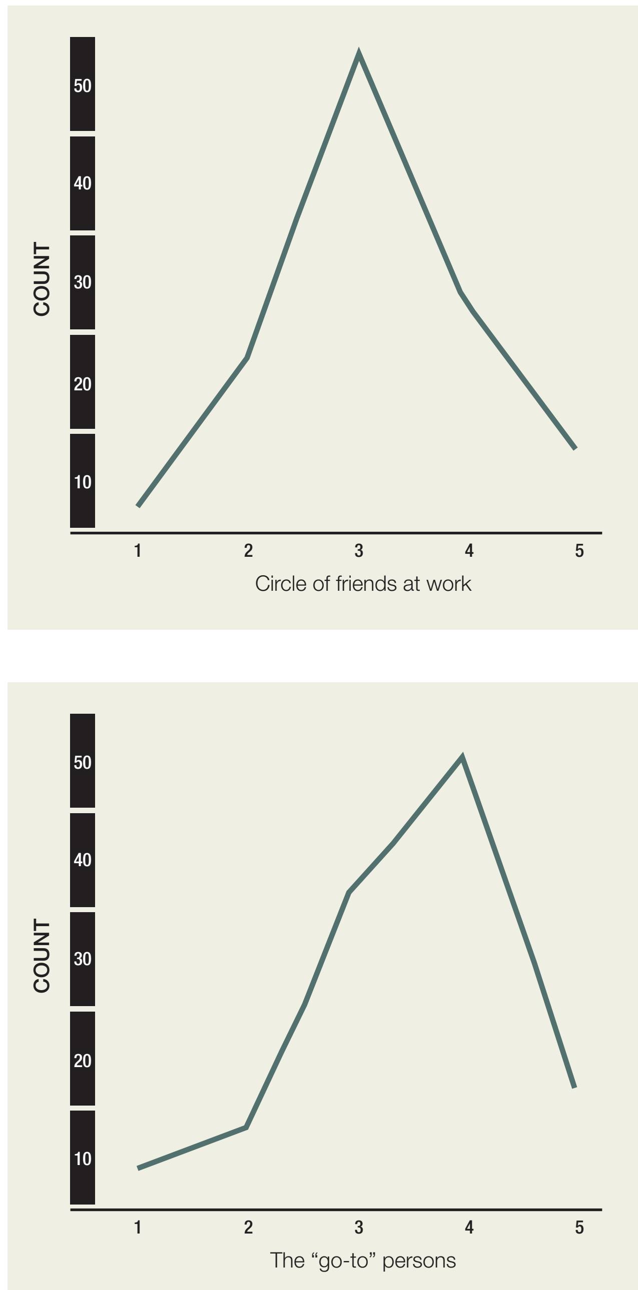


Figure 5 shows respondents' evaluation of how favourable the opinions were from six social groups of people at work on a five point scale, 1 being extremely unfavourable, and 5 being extremely favourable.

Figure 5: Averaged Favourability of Word-of-Mouth (WOM)

It is somewhat heartening to see that, at least in aggregate, the informal communication about new technologies is positive across the six social groups. We did, however, find a range, with some respondents receiving negative WOM. For example, the distribution of WOM is relatively even in the group of friends at work; it is skewed toward the positive side in the group of the "go-to" persons (see Figure 6). No matter what the distribution, some of our respondents got negative WOM from either group.

Figure 6: Examples of Distribution of WOM



What should managers do with the negative word-of-mouth? We recommend that managers balance the negative with some positive word-of-mouth. This strategy is similar to online reputation management: Make sure that positive information comes out before the bad, and that it is louder. Although managers cannot mandate positive word-of-mouth, they can encourage those who are trying a new system to share their experience (e.g., "If it's good, go tell your friends. If it's not so good, come tell us"). Our case study showed that even the thought that management will attend to as many glitches as possible can motivate employees trying something new to give out positive word-of-mouth. This, in turn, lowers anxiety and boosts enthusiasm in others who receive such information.

In addition, managers can improve the physical layout of office space and the work space so that social interaction is not diminished. This idea is similar to knowledge-sharing friendly offices. Voluntarily telling colleagues how handy a new technology is actually requires opportunities for them to encounter it first, as shown in the scenario earlier. Prior research showed that "water-cooler conversation" can improve employees' technological competence (Boudreau and Seligman, 2005), because employees can quickly seek information from others for technology-related problem-solving. Likewise, employees can learn about a new technology from others and engage in collective sense-making in this type of unplanned encounters. The availability of time and space for members of the same work group to take a break together may have similar effects. Another recommendation is to place expert users in a highly accessible area of the office. This may help the good news of a new technology travel fast and far.

For virtual teams, physical encounters are much less feasible for spreading word-of-mouth. In our case study, the opportunities for social interaction were limited for employees in the community health organization, mainly due to different work schedules and the job requirement to constantly commute to various neighbourhoods. In that situation, managers can provide communication tools to enable social encounters in the virtual world. Social networking tools, such as messaging, Facebook, and Twitter can be developed to facilitate community building and informal information sharing.

Implementing new IT will likely always be a challenge. But we can use the results of this research to help limit the difficulties by taking advantage of both formal and informal communication to influence employees' emotions. Through improved communication in the WHAT, WHY, HOW, and WHEN of the new technology and facilitated circulation of favourable word-of-mouth, managers can gain buy-in from employees and keep their anxiety at bay during system implementation.

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Social Networking: The Corporate Value Proposition

Marketers habitually find it hard to quantify the value of what they do, and their use of social networks is the latest manifestation of this difficulty. Why is it so hard to determine the business value of social networks? This article explores the slippery slope of coming up with a useful 'social media ROI' and offers new ways to understand social networking's value proposition.

by Joseph Sexsmith and Robert Angel

Almost two years ago, in an article in the July-August issue of the Ivey Business Journal, "Social Networking: The View from the C-Suite," we wrote that, "Many managers today are uncertain about what social networking really means, how it fits their business strategy, and most importantly how they can define its practical value to the business." How little the world changes! Despite two years of increasing corporate social media activity, our research is telling us that the C-Suite is still finding it extremely hard to define their organization's value proposition for social media.

eMarketer, a U.S.-based firm that provides research and analysis of digital media, recently reported that 175 chief marketing officers were asked to identify social media activities with the highest Return on Investment. *Most did not know the return* ("Dramatic Difference in Approach to Social Media Metrics", Feb. 8, 2011). Even 'Facebook' and 'ratings and reviews', the two features rated as having the greatest ROI, were only so rated by about 15 percent of respondents. Other researchers have recently told similar stories. We agree with eMarketer, that, "The ROI question is still not answered".

This article takes a further look at social media's value to C-Suite decision makers. How can executives quantify the benefits of fostering customer engagement and brand? How can they impute value to transforming influence? How should real-time, collaborative dialogue between the company and customers and vice versa best be expressed as a value proposition?

1. RETHINKING HOW MARKETING VIEWS SOCIAL MEDIA

Given marketing's prominence as an expense category, the C-Suite has long wrestled with the question, "What is our return on marketing?"

To test the question, we asked a number of practitioners how they measure the value of social media and what sort of results they were seeing from its use. We found the answer can all too easily default to marketing goals rather than specific metrics and results. Certainly, goals are a valid conceptual starting point, especially for social-media measurement beginners. Indeed, failure to identify goals before selecting metrics frequently leads to underperformance.

However, goals can only take us so far in defining and assessing the value of social media, and they will likely be insufficient when we have to make operational marketing decisions. If executives are to deliver on brand promises, they need a deep understanding of customers, one that can be gained from evaluating customer behavioural data at a granular level.

Finding actionable metrics

Analysis of customer data and other metrics has been evolving through a hierarchy of increasing sophistication (see the accompanying table):

Table: Metrics Analysis Hierarchy	Level 1 – Volume oriented	Level 2 – Customer attitudes and needs	Level 3 – Qualitative measure	Level 4 – Modeling
Replication quotient	High	Moderate	Moderate	Moderate
Observed utility to marketers	Low	Moderate	Moderate	High
Measurement implications	More-is-better mindset	Reinforces volume orientation	Informs rather than directs	Prioritizes, iterative, optimizes

LEVEL 1 – Volume oriented

Traditionally, marketers wanting to address operational matters have taken a more quantifiable approach, using metrics that have tended to be volume-oriented. Typical examples are: number of followers, traffic driven to the website, community traffic hit rates, page openings, click-throughs, time spent on-line, responds vs. non-responds, postings and comments, conversions, and units sold. Volume-oriented metrics are undoubtedly useful, but relied on by themselves they can foster a 'more is better' mindset. They also tend to provide only a partial answer – flagging increases or decreases in customer activity without actually telling us what to do. Our view is that volume-oriented practices limit value for decision makers in the C-suite.

LEVEL 2 – Customer attitudes and needs

Limitations of volume metrics have led behavioural marketers to examine customer attitudes and needs more closely. Metrics include: customer satisfaction, cost-of-acquisition, brand awareness, brand competitiveness, and brand likeability. The 'net promoter score' is an indicator of customers' attitudes derived from measuring the customer's likelihood to recommend the firm or product to others. These metrics bring a more qualitative view of customers but they still can reinforce volume oriented thinking and thus are inadequate as proxies for quantitative insights. Naturally, the more longitudinal the data become over time, the more relevant they will be to those who really want to know 'what happened'. Our view is that a more holistic view of the customer, one provided by a social media microscope, offers considerable promise. But a lack of consistent data, historical bases, sharing standards, and transparency will keep it off many C-suite dashboards.

LEVEL 3 – Qualitative measures

Some marketers in this 'advanced' category optimize their operational practices and brand – execution value proposition the same way that they work to optimize their ad spend. This has led to use of qualitative measures to support operational questions like: What are our customers' individual needs? How good are our insights into the way our customers regard and connect with our brand? How and when can we best engage our customers and enlist them as collaborators? How innovative, differentiated, and resilient will our brand continue to be in these commoditized and competitive times? Our 2009 article gave some examples of social media qualitative metrics that bear repeating: customer share of wallet, reasons for changes in composition of customer lifetime value and satisfaction, channel effectiveness related to customer needs, and effect of time to market, pricing power, and brand equity. The aim is to get dynamic insights into brand engagement, audience captivation, level of interest, and content curation – why people buy, what triggers a stretch-purchase, who the key influencers are, and what strengthens relationships? Until these questions can be answered adequately, these qualitative measures will inform a C-suite member's decision but not direct it.

LEVEL 4 – Modeling

There is an emerging fourth level in the hierarchy, modeling planning-related data. This is so far a relatively underdeveloped (and under-automated) aspect of marketing practice. As discussed in the rest of this article, it involves creating social media analytical models that synthesize the complexities of both volume and qualitative data – with value projections, iterative 'what if' calculations, decision criteria, and prioritization of activities. The challenge for modellers is to eliminate the bias inherent in the mathematics underlying the business-as-usual mix optimization models that have been in use for over 30 years now. A message to econometricians: it is no longer business as usual so stop running those forecasts. More than any other decision makers, marketing planners tend to get this.

Level 4 (modeling) in our view is the most robust — and is essentially the platform on which the rest of this article is based.

Actual measurement practices in supporting specific brand planning can often be somewhat experimental. Examples related mainly to the first three levels are illustrated in the boxes containing comments from three of the leading marketers we spoke to. Their comments reinforce the understanding that a combination of quantitative and qualitative marketing measures helps the marketer improve interaction tone, quality, and benefit to the customer – not just in social media but across the full spectrum of the business.

Empirical results from brand lifecycle activities example:

Mark Daprato, VP, Marketing at Swiss Chalet, measures "the social media cost of acquiring a fan, the incremental benefit of unpaid content compared with paid clicks, and soft benefits like fan responses to an on-line customer complaint posting" that together provide social media value added. He adds that brand lifecycle only delivers a return when you reach the affinity stage with customers.

2. SALES LIFT VS. CUSTOMER RELATIONSHIP VALUE LIFT

Modelling is not just for use in internal marketing. It can also to be used to answer questions posed by the other members of the C-Suite about those value-specific marketing activities that deliver value for the organization. Marketers should avoid overwhelming their colleagues with too much data, but they do need to provide a convincing justification for social media investments. They also need to distinguish the implications of sales lift from relationship lift.

Sales Lift

Marketing analytics historically has tended to be more about product than customer, i.e. incremental units sold or, less helpfully, incremental ‘conversations’. Some in the leader category of brands claim to be able to map the connection from creating demand awareness to a conversion. But in social media it is hard to find anyone able to seamlessly replicate the process that got the consumer there the first time. Hard results from specific promotional activity are often easier to measure than soft benefits from improved relationships. We would like to see this reversed.

A typical product-planning model is based on the direct marketing deal – for example a coupon or a price cut, maybe backed by a print or TV advertising campaign. It is not surprising that many of these models originated in the advertising industry.

Opportunity cost example: Frank Trivieri, GM Canada’s General Director, Marketing, says that social media is not just a mechanism that gets the message out but one that “enables us to listen closely to the customers.” He is mindful of the opportunity cost from not doing this – “If we don’t connect effectively in social media channels, we will miss out on key conversations and opportunities to engage people who may never have had GM on their radar before.” Trivieri uses a commercial measurement tool to track net positive/negative comments, to augment traditional audience activity metrics like increases in numbers of pages viewed, brand scores, etc. and has established a cross-functional social media council at GM Canada to ensure that the company remains relevant and accessible.

Several social marketers we spoke to have found it quite difficult to adapt traditional advertising interaction models to on-line interactions, even when deal-based. Perhaps, insufficient on-line history has yet been accumulated to refine their model assumptions.

The promotional approach to social media appears to have staying power. Our research indicates that companies posting deals on social media generally express satisfaction with results, claiming the direct marketing approach is generating incremental sales and customer receptiveness.

Tools to Support Product or Service Promotion

Promotional activities are also the foundation for many social media support tools, reflected for example by deal-based web sites like Groupon, or Facebook, Twitter and other popular sites whose facilities are used, among other things, for posting promotions.

New social media tools are constantly being introduced to support campaign management and advertising planning, a lot of it geared toward automating and standardizing the workflow and business processes supporting them. We spoke with two firms providing analytical services that include ROI calculations for their tools.

e10egency’s The Drum Platform is an Oakville, Ontario-based web service that combines direct marketing and social media sharing. Managing Partner Derek Lackey characterizes the approach as “stop pretending when what you really want is to sell”. His calculations are based on customer conversions, “driving traffic rather than just getting eyeballs.” He explains that “value computations are derived from marketing benefits like increased response rates and tracking campaign performance – but also from value imputed to marketing activities such as building opt-in email lists, identifying key brand influencers, collecting additional data about customers, and improving organic rankings.” His point is that, “You can expect direct measures as well. Indeed you SHOULD expect direct measures. In the mass marketing era, the owners of the media had a strong commitment to not being too measurable. In the Google Age no such commitment exists. Now we can be more accountable.”

Value to the customer (rather than just to the organization) example: Uwe Steuckmann, Loblaws Senior VP of Marketing says, “Value to the customer is based on providing useful information to people who chose to interact.” Loblaws is focusing not so much on return on investment as return on attention (“is it important enough to interrupt someone in this world of ‘free’?”). Steuckmann notes how easier email results are to measure, with metrics like ‘was it opened?’, ‘was it clicked through?’, or ‘was it forwarded?’ and is still looking for a really good social media equivalent.

Crowd Factory, a San Francisco-based customer acquisition web solution, also expresses value in terms of conversion. Sanjay Dholakia, Crowd Factory’s CEO, says that “benefits tend to come in two primary ways: amplifying the brand for existing customers and acquiring new customers.” The result is the ability to engage and retain customers in a more powerful way. “We seek revenue lift by having customers spread the word rather than having to spend marketing budget on paid clicks. The conversion rate on social traffic,” he adds, “tends to be at least three to five times higher than other traffic.”

Promotions and Relationships

Few of the companies we spoke to use social media exclusively for promotional deals. It seems that with social media, many companies that rely heavily on promotional deals are also active relationship builders, reflecting apparent widespread recognition that not using social media to build relationships is to miss the larger opportunity. As Crowd Factory's Dholakia put it, "if companies are just using social media as another sales channel, then they are not taking full advantage of the powerful relationship benefits on offer."

For example, an airline that has been using Twitter to pump out information on last-minute deals also uses Twitter extensively for one-to-one interactions. Its passengers say that last-minute deals are something they really want to have brought to their attention; they also say that their ongoing personal connection with the airline is very important to them.

It should be noted that some companies do not post deals on social sites at all, such as Swiss Chalet. "Many product marketers are not deal-centric," Mark Daprato of Swiss Chalet points out, citing Coke and Pepsi as well as Swiss Chalet. "Our brand would be diluted if we were thought of by the social media community as a discounter."

Relationship Lift

Some social marketers have started value computations by measuring social media value in the aggregate, much as many promotional models do. An example of a simple aggregate relationship value model is an estimate of enterprise value before a given marketing activity compared with value computed afterwards.

Others adapt traditional one-to-one relationship engagement models to social media. A bank's analytics manager told us he is doing this to evolve a longer term conversation and make 'social' the medium of customer choice.

Analysis has tended to become more granular over time, i.e. at a more detailed, transactional relationship level – such as for loyalty card responses, propensity, attrition, fraud, attribution, lifestyle segmentation, or event triggers – with calculations evolving from computations of groups of customers, down to individual customers' current value, and then to individual customers' net present value.

If product sales lift is the currency for the promotional use of social media, what then might be the equivalent for a relationship approach? For Ian Barr, Vice President of RocketXL, a unit of the EdC marketing agency network, the brand objective typically is the driving force. This often refers back to optimizing customer lifetime value, a concept many marketers have relied on over the years but in a social networks world have had little ability to re-create in any meaningful way. Customer lifetime value holds considerable promise to marketers who are trying to provide senior leadership with a long term driver of decision making.

Aaron Magness, Senior Director, Brand Marketing & Business Development of Zappos, the Las Vegas-based clothing and shoe distributor famous for uncompromising on-line service, told us that Zappos' social media investments build relationships. "We think about future relationship value compounding just like the time value of money. We build customer value similar to the way others build cash net present value," he told us. "Metrics designed just for same day, or even for same month, results will tend to produce a lower return over time. Short term effects do not matter as much as long term value creation."

RocketXL's Barr points out the importance of prioritization in sustaining a brand's increase in value. "The old style was to grow the value of a customer through a huge investment in paid media," he observed. "This leaves little budget for social media measurement especially since there is so much that can be measured. Today, web brands can be overwhelmed by the number of fans as well as the amount of data." For Barr, measurement is an ongoing examination of which data points yield the significant findings that enable marketers to keep relationship and brand values moving forward.

This will take on increasing importance in the future, given Morgan Stanley's recent estimate that global internet ad spending is growing at a 40 percent rate.

3. A SOCIAL ANALYTICAL MODEL FOR SMART SYSTEM PLANNING

Advanced social analytical model examples:

- Longitudinal data and collaborative models
- Cause-effect maps
- Polling technology often related to search-engine marketing to help understand the words being used and their relative attributes
- Behaviour modeling, including behaviour rewards and incentives
- Return on marketing investment/customer investment, cash flow models, and business impact models

Source: "Social Networking: The View from the C-Suite" by Robert Angel and Joseph Sexsmith, Ivey Business Journal, July/August 2009

There are a range of advanced social analytical model types in use today, such as those listed in the accompanying box.

These are tools that aim to provide a more accessible and analytical picture of grass-roots opinion and future activity around a brand than traditional focus groups.

Smart System Planning

We believe that 'smart system marketing planning' will become a very new way for executives to take in the past, present and future of a company's ability to plan, forecast and measure the effectiveness of their investment in marketing. It is 'smart' because it is self-actualizing and self-sustaining. It is a 'system' because it is technologically-borne and close-looped. It is 'marketing' because it addresses all aspects of marketing strategy and operations new and old. It is 'planning' because it reinvents the function and new role as the ultimate site of collaboration for all business planners – within a company and with all those in the marketing value chain.

At the heart of smart system planning is modeling the value proposition. This helps clarify the core rationale of social media, especially finding influencers, taking collaborative approaches, and fostering brand interaction – leading to relationship engagement and transformation – and then to building deeper relationships that sustain brand value.

As Susan Smith of the strategic communication firm, Livewire Communications, puts it, "the key is to identify the factors that will produce a shift in brand mindset".

The Business Impact Model

We have used business impact models to create marketing business cases during more than two decades, translating specific measurements selected case by case. The models are essentially customized payback calculations that use assumptions about customer behavioural implications derived from previous experience.

The models typically provide quantified estimates of potential economic benefits, often revenue lift or cost reductions in spreadsheet format, and include forecasted ROI.

Successful business impact models generally include the following characteristics:

- Conservative assumptions that the C-Suite can believe
- Activity-based revenue and cost attribution, i.e. tied to actual social media activities
- Actionable metrics, i.e. that point to what needs to be done
- Iterative calculations to indicate sensitivities, break even points, etc.
- Details for credibility, but not so many as to overwhelm people with data
- Bottom-line oriented to get to the heart of the business decision's expected result

We have used these models in a variety of ways, for instance, to project the business value of prospective marketing activities such as responding to customer-initiated activities, launching promotional programs, and conducting activity-initiated dialog with customers and suppliers. Models are typically customized for the industry, activities and assumptions.

4. GETTING FROM MARKETING PLANNING TO FINANCIAL PAYBACK

Today, just as we wrote two years ago, "senior decision makers can no longer avoid facing the challenge of knowing how to use the data to judge the depth and characteristics of interactions and brand perceptions". How this is done could have far reaching implications for the future direction of marketing.

Better analysis of the value of social media could help head off any incipient business tensions between chief marketing officers and the rest of the C-Suite.

We see risks of moving in the other direction if social media is widely used simply for posting deals on Facebook and Twitter. In other words, promotion-skewed business processes could dominate social media (and cross-platform) planning practices, sending social media eventually back to a traditional product/service push and a 'compete on price' mindset –messages sent to the mass market rather than conversations to build one-to-one relationships.

Marketing can lend a business model-building perspective to all of the chatter around what collaboration really is, thereby optimizing the value of customer relationships This would see social media firmly established as mainstream for Canadian executives seeking to discern the differences among alternative relationship planning options competing for restricted marketing resources.

As is the case with all of the practices we have reviewed in this article, the greatest obstacle to developing a smart systems view of social media is that change-resistant marketers will cause C-suite members to resist adopting it.

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global business

What We Can Learn From High Value Indian Outsourcers

For the past decade, Indian outsourcing firms have talked about 'moving up the value chain' as a way of enhancing their service offerings, protecting their outsourcing dominance and increasing their opportunities for profitability. These long-term moves have important implications for client firms, since they imply a shift in how client firms and business leaders engage with these outsourcers. While Indian outsourcers have prepared for this shift, it seems that many business leaders on the client side have not. Readers will learn what to look for and copy from Indian outsourcers who have successfully enabled their business for high value-chain work, and how to prepare to leverage high-value outsourcing opportunities for their firms.

by Nicole Haggerty

THE VALUE CHAIN RHETORIC AND REALITY

The last decade has brought enormous changes to the Indian outsourcing industry. The high corporate IT spending of the late 90's, fuelled by global investments in hardware and software to cope with Y2K issues, and later the dot.com bubble, created important conditions for Indian outsourcers to thrive. But the development of the outsourcing services industry initially focussed on low cost, high quality labour. This strategy has since become unsustainable in India, as the inevitable pressure from alternative low-cost, high-quality labour markets such as Russia, the Philippines and China increases. With nearly 6 percent of India's GDP accounted for by this industry, the pressure is on to change strategy.

Concurrent with their successful growth over the last decade, Indian vendors like Tata, Wipro and TCS, aware of the long-term problem of relying solely on a low cost/high quality advantage, have sought to move into higher value-added work as a solution. For at least the last 10 years, an almost universal theme in the Indian marketplace has been the crucial need for vendors to "move up the value chain." So, simultaneously with building process maturity in their outsourcing practices, the last decade has also seen, to varying degrees, vendors who have sought to move from low value-add services like software maintenance or call centres, to increasingly higher value-added services such as systems integration, product development, R&D, market entry and consulting services. Such services enable vendors to take on increasingly partnership-like, strategic roles with their clients instead of being seen as mere vendors.

The rhetoric of moving up the value chain has been persuasive as well as prolific. But the reality bears scrutiny. What does it mean to move up the value chain and how successful have Indian outsourcers been in accomplishing this crucial shift? Interviews with large Indian outsourcing firms as well as an examination of academic and practitioner findings lead me to conclude first that "moving up the value chain" means different things to different participants in India. Second, Indian outsourcing firms generally have extremely sophisticated knowledge-capture, – sharing and – cultivation activities. These capabilities enable creativity and create a strong connection between the sales people and IT service core of their businesses, which in turn creates the internal capabilities to provide high-value service. Third, IT-savvy business leaders have an important role to play for both outsourcers and their clients if both parties want to maximize value creation from these moves.

1. THE TRUE MEANING OF "MOVING UP THE VALUE CHAIN"

The value chain rhetoric is actually not a monolithic theme for Indian outsourcers. For some, it means an emphasis on the vendor's internal value chain – undertaking process or product changes, which improves the key metric, or 'the revenue per employee,' by decreasing headcount costs. (This is a move towards non-linear growth). Implementation of mature processes like the Capabilities Maturity Model, along with internal process re-engineering, are some of the models for accomplishing this move, which means keeping the same revenue base but decreasing employee head count to perform the same level of service. This is a 'do more with less' strategy that focuses on employees. Vish Iyer, head of Asia-Pacific Operations of Tata Consultancy Services, says that the goal of a non-linear growth model is to "leverage our intellectual property, not our head count."[1]

For other outsourcers, moving up the value chain means a focus on the external value chain, thus creating knowledge-based, high-value, complex offerings from professional services. In short, this means getting paid for solutions instead of getting paid for people – a revenue focus. This is in contrast to the historical focus of performing repeatable, highly mature, outsourced services across a variety of industries, services that emphasized replicating and refining best practices.

The effort to move up the value chain by undertaking more sophisticated, more deeply strategically embedded, complex offerings implies the need for a totally different set of internal capabilities in outsourcers. What is crucial for success solution definition and creation includes capabilities like innovating for each project, developing an internal expertise and strong processes for learning new capabilities, creating tight linkages within the outsourcer between sales and service professionals, and ensuring tightly woven external linkages with the business leaders on the client side, rather than the IT leaders, as has been typical. Recent re-organizations at Infosys from a vertical market-line focus to consulting services are seen as part of its effort to accentuate and solidify its move away from a 'technology company' to a solution provider. S. D. Shibulal, the new CEO of Infosys states that: "I clearly believe this strategy will take us closer to our vision of creating the next-generation consulting and system-integration corporation".[2]

Infosys is not alone in focussing on service innovation. In April of 2010, MindTree, a mid-tier outsourcer aiming to launch a growth strategy to take its revenue base into the billions of dollars to compete with the top-tier players, launched a "5*50" initiative[3]. Intended to create intrapreneurship amongst employees, the idea is to cultivate employees' creativity to start 5 new high-value business lines that could reach $50 million revenue in 5 years. Four months after launch, the first incubated business idea was launched – digital surveillance – a high-value solution aimed at security organizations and government services.

2. SOPHISTICATED KNOWLEDGE MANAGEMENT

My second observation relates to the sophistication of knowledge – management activities within Indian outsourcers. Next-generation knowledge-management technologies and techniques are building on the overwhelming success of social media to spur connectivity between people. McKinsey reports that Indian firms surpass North American and European firms in their internal use of social media to support knowledge sharing and collaboration – particularly in terms of blogs, wiki's video sharing and podcasts. Such technology extensions enable the discovery, aggregation and sharing of knowledge, the sourcing of expertise, and a reduction in costs and time for sharing innovative ideas. Some Indian firms have been so successful in this activity that they've been able to commercialize their innovations into a new service offering. For example, Cognizant, which has most of its workforce in India performing offshore outsourcing and systems integration work, developed an excellent knowledge-management platform. The platform, called Cognizant 2.0 or C2 (reported in July-August, 2011 Ivey Business Journal), proved so popular at Cognizant's 2009 conference that clients expressed an interest in buying it. Such strong knowledge-management practices facilitate the kind of knowledge work, collaboration, creativity and innovation required to provide excellent, solution-based product offerings to clients, while creating the right internal conditions to move up the value chain and extend service offerings.

3. IT SAVVY

My third observation is that a skill that appears in strong supply in Indian vendors, yet is in short supply in client firms is IT savvy. IT savvy is a set of behaviours, knowledge, structures and routines that reflect the capability to leverage technology to create business value. This business capability was coined at a firm level by Peter Weill and Jeanne Ross of MIT in the book IT Savvy: What Top Executives Must Know to Go from Pain to Gain. However, it can also be seen as a crucial individual leadership skill. IT savvy helps explain the difference between firms that extract up to 20 percent more margin than their industry by effectively leveraging IT from firms who are not IT savvy, and who can fall as much as 30 percent below their industry average margin because of ineffective value creation from IT investments.

Indian vendors who have deployed value-chain moves that target the creation of higher-value work have developed extensive IT savvy within their organizations.

IT savvy business development staff appreciate the complexity of high-value services and have the knowledge to drive innovation in solution offerings for clients. This IT savvy capability has also lead Indian outsourcers to create the right structures and routines to support effective internal partnerships between business development and service delivery teams, something which in turn enables them to go beyond re-creating and replicating mature project work.

Strong knowledge management practices, investments in leadership development and training, and organizational structures to support valued employee interactions are forms of sophisticated IT savvy that help Indian outsourcers create high-value solutions. For example, Tata Consultancy Groups' extensive use of balanced scorecards to link key strategic performance metrics to process activities in the firm helps it deliver service excellence to their clients. Wipro has won numerous awards for leveraging knowledge management as a way of doing business ,and a business routine that is directly involved in value creation within the firm and for their customers. In 2010, having won the Asian MAKE aware (Most Admired Knowledge Enterprise), Ved Prakash Chief Knowledge Officer of Wipro said:

> "Knowledge Management in Wipro is closely aligned to business goals and this has created visible value for our stakeholders. Our customers have benefited from enhanced knowledge retention, organizational best practices, access to wider pool of experts and cross leveraging of knowledge across different groups in Wipro. This award is indeed a testimony to our efforts in this direction over the years."[4]

Since excellence in knowledge management requires strong business-IT linkages, it can be seen as IT savvy in the form of behaviours, knowledge bases and structures which create value. Unfortunately, the existence of IT-savvy business leadership within the client firms is still a rarity. While there are certainly exemplar firms that get IT right (see Weill and Ross' IT Savvy book for great examples) the reality is that many client firms still see business-IT alignment as a problem, and so continue to experience alarming IT project failures.

These failures can be attributed to a lack of IT savvy in business leadership. This presents a pretty substantial problem for outsourcers, since their new value-chain model requires them to move up the client chain as well and start engaging client-side business people more actively during the consulting, especially on the high-value service-development and the service-delivery phases. But while Indian outsourcers need IT-savvy business people to partner with within their clients, finding them is another matter.

Thus, the value-chain rhetoric has produced some important opportunities in terms of high-value service offerings and best practices, of which Western firms can take advantage. These include consulting, R&D and systems integration services, and work practices like sophisticated knowledge management and IT-savvy business leadership. Below are some specific suggestions for learning from these high-value outsourcers.

WHAT CAN YOU LEARN FROM HIGH VALUE INDIAN OUTSOURCERS?

There are several things we can learn from high-value Indian outsourcers which may or may not be related to using their outsourcing services. From a management practice standpoint, there is much to be learned from their sophisticated level of knowledge management, including expanded opportunities for deploying social media tools. We can also learn from their internal practices, which have developed a strong internal IT-savvy capability – a crucial capability in a world where technology touches almost everything firms do. With these practices strengthened, client firms will have laid a stronger foundation for better partnerships with high-value outsourcers, who develop and deliver complex consulting and valuable solutions instead of mere transactions. In some respects, this implies that for the high-value chain strategy to pay off, Indian outsourcing firms need clients who are mature enough and internally aligned enough to be ready for such partnerships.

As mentioned, Indian firms lead North America and Europe in their use of social media in the firm, especially for cultivating value-creating knowledge management activities. More firms need to study and copy these practices. Some are already innovating along these lines. For example, Best Buy and Intel are leveraging wikis, Twitter, RSS, internal Facebook-like social networks, blogs, even prediction markets, and open innovation techniques. But judging by the internal social media/social computing adoption rates, more firms need to be copying Best Buy and Intel if they are to reap the benefits of strong internal collaboration and content refinement that users undertake.

Beyond typical KM technology implementations to govern vast storehouses of content and to enable email like interaction, social media KM extends the visibility of networks, which helps source the right expertise. Such visibility also creates more 'processed,' user-generated content beyond uploaded PowerPoint presentations.

Blogs, wiki-based collaborations, user content tagging and RSS feeds allow users to create their own content, to find similar content in search terms that are meaningful to them, and push out relevant news that they control. In moving up the value chain to more knowledge-intensive, innovation-demanding forms of services, high-value Indian outsourcers have learned much that they can teach us about developing these universally important managerial tools, processes and capabilities.

With respect to IT-savvy in business leadership, firms should seek to improve their own leveraging of IT. As mentioned, IT-savvy firms and business leaders undertake certain behaviours, develop certain types of knowledge and create structures and routines which bind business and IT together. Typical IT-savvy business leader behaviours are personal attendance at IT governance meetings, accepting cross-appointments between IT and the business, accepting personal responsibility for designing business processes, and assuming responsibility and accountability for IT spending and value creation.

IT-savvy business knowledge includes process standardization and integration competence, knowledge or enterprise architecture and strategy enablement, proper business-case development, and systems and data reliability and governance.

IT-savvy business structures and routines that can be implemented to enhance knowledge and behaviour effectiveness include defined business roles and responsibilities for IT, reward systems, training, governance and decision rights which separate infrastructure from applications, and business roles for scanning and technology updating[5].

High-value Indian outsourcers have had to develop these capabilities out of necessity. To survive and thrive in the highly competitive outsourcing industry, they needed to develop superior capabilities to manage client relationships and to create new business solutions. We can learn a lot about develop IT savvy business leaders at home from their activities.

READYING YOURSELF FOR LEVERAGING HIGH VALUE CHAIN OPPORTUNITIES

With sophisticated knowledge sharing and IT savvy in place, client firms who chose to do so will be prepared to collaborate and innovate new ways of doing high value-added work with Indian outsourcers. Activities like systems integration, end-to-end business solution development and deployment, R&D, market entry and product development are a just a few of the current offerings in which many Indian outsourcers are striving to develop strong portfolios of services.

The success of such ventures is predicated on effective collaboration between IT-savvy business leaders at client firms and the outsourcer. However, this remains a large stumbling block for Indian outsourcers. In order to move up the value chain, Indian outsourcers must move away from typical partnerships with their client's IT leadership and staff, and towards strong relationships with IT-savvy business leaders who are prepared to collaborate and learn from them. It's time to recognize that Indian outsourcers are not just service providers but sophisticated organizations with strong practices that we can learn from and leverage. They know what they are doing. Do you?

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Leadership

Developing Leadership Character

The sum of virtues, values and traits equals good character, which, in addition to competence and commitment, is one of the three ingredients that make a leader effective and respected. For many, however, virtues, values and traits remain indefinable, even elusive. These authors not only define them, they also de-construct them, in the process demonstrating how character fuels people in their personal journeys to become better leaders.

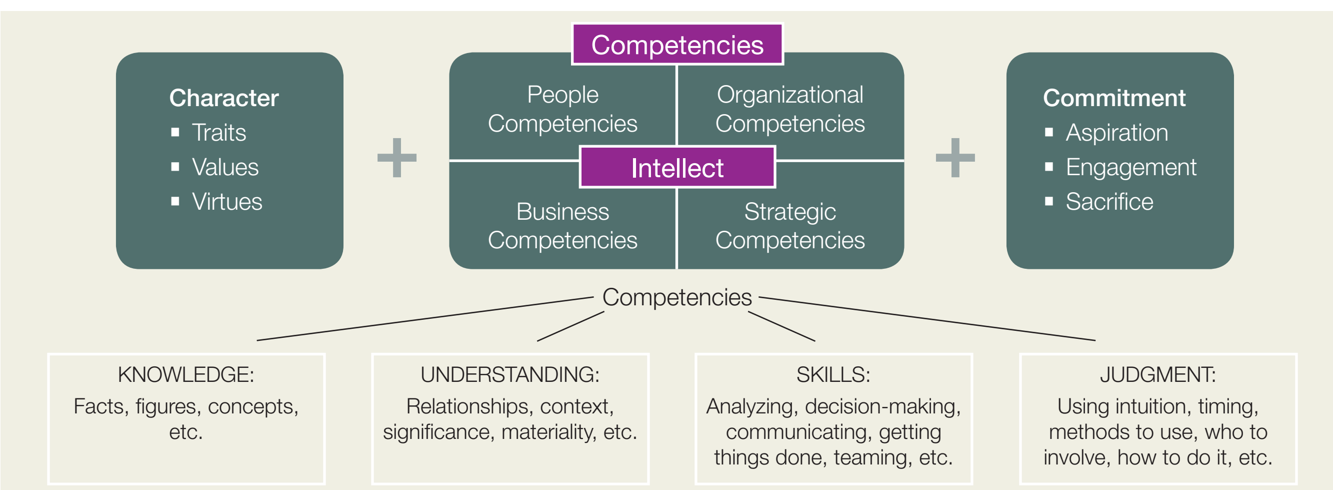
by Mary Crossan, Jeffrey Gandz, and Gerard Seijts

In assessing leaders at any level in an organization, we must always ask three questions:

- Do they have the *competencies* to be a leader? Do they have the knowledge, the understanding of key concepts, facts, and relationships that they need to do the job effectively?
- Do they have the *commitment* to be a leader? Yes, they aspire to be a leader, but are they prepared to do the hard work of leadership, engage with others in fulfilling the organizational mission, achieve the vision and deliver on the goals?
- Do they have the *character* to be a good leader and strive to be an even better one? Do they have the values, traits and virtues that others – shareholders, employees, customers, suppliers, regulators and the broader society within which they operate – will use to determine if they are good leaders?

We have documented previously the types of knowledge, skills, understanding and judgment that leaders need, grouping them into four competencies – strategic, business, organizational and people[1]. Underpinning these competencies is general intellect (see Figure 1). We have also talked elsewhere about the importance of leaders having the commitment to lead and the problems that are caused when people in leadership roles no longer want to do the hard work of leadership and become disengaged from what is happening in the organization, while they still enjoy the status, privileges and perks of office. In this article, we want to focus on leadership *character,* not because it is necessarily more important than competencies and commitment, but because it is the most difficult to define, measure, assess and develop. Our intent is to define those dimensions of leadership character that are most important in today's rapidly changing and turbulent business environment, and suggest how character can be developed.

Figure 1: Leadership Competencies, Character and Commitment



WHY CHARACTER MATTERS

In any bookstore you will find dozens of books on leadership style, far fewer on leadership competencies, and fewer still that address leadership character [2]. For some reason we have lost sight of character. Perhaps this is because our educational system and organizations are so competency focused; perhaps because we just don't know what to think about character; perhaps because character seems such an old-fashioned word; perhaps because we are reluctant to discuss examples of poor character with our colleagues in the workplace, or because we believe we cannot assess character objectively.

Yet character is such a central, important element of leadership — particularly for the kind of cross-enterprise leadership that is essential in complex, global business organizations — that it should not and cannot be ignored. Character fundamentally shapes how we engage the world around us, what we notice, what we reinforce, who we engage in conversation, what we value, what we choose to act on, how we decide…and the list goes on.

Our own research on the failures of leadership points to issues around character as a central theme[3]. Nowhere was this more obvious than in the financial crisis of 2008 – 2009, in which boldness or instant gratification triumphed over temperance. People who knew that bad risks were being taken did not have the courage and/or confidence to speak up, and people without integrity sold mortgages to those who could not pay them. They then bundled these mortgages into securities that were fraudulent and sold to others. People with large egos, lacking in humility, oblivious to the harm they may have been be doing to others or the societies in which they operated, became very rich at the expense of millions who were the victims of the financial crisis and subsequent recession. Yet, to this day, these same people seem unable or unwilling to accept any degree of responsibility for their actions. Leaders of large, global companies knew about these types of practices yet did nothing to stop them. Still others were unable to create the honest, transparent corporate culture that would enable them to be in touch with what was happening deep down in the organization. All these behaviors and activities were, essentially, failings of character.

DEFINING CHARACTER

There is no consensus on a definition of character. In fact there seems to be as many definitions as there are scholars whose research and writing focus on character [4]. In our discussion of character, we focus on personality traits, values and virtues.

Traits

Traits are defined as habitual patterns of thought, behavior and emotion that are considered to be relatively stable in individuals across situations and over time. Traits are not fixed. For example, introverts may be able to learn how to behave in a less introverted way, while extroverts may learn how to control and moderate their extroverted behaviors when situations require it.

There are, literally, hundreds of personality traits from A (ambition) to Z (zealousness) that have been described in the psychology literature. However, through statistical techniques such as factor analysis, five broad domains, or dimensions, of personality have emerged, and are now widely used in various forms in employee selection and assessment [5]. The “Big-Five” traits are:
- Conscientiousness
- Openness to experience
- Extroversion
- Agreeableness, and
- Neuroticism

These five traits feature prominently in tests or inventories and they have come to be known as the FFM, or the five-factor model, a robust model of personality. Although the Big Five dominate the personality literature, there are various other traits that warrant consideration and measurement, such as self-confidence, ambition, perfectionism, dominance, rigidity, persistence and impulsivity.

Some personality traits can be inherited. For example, studies have shown that identical twins that have the same genes show more traits that are similar than non-identical twins. Traits, of course, also evolve through life experiences and deliberate developmental exercises such as coaching.

Values

Values are beliefs that people have about what is important or worthwhile to them. Values influence behavior because people seek more of what they value. If they can get more net value by behaving in certain ways, they will. Values therefore can be seen as the guideposts for behavior. Some people value their autonomy very highly, some value social interaction, some value the opportunity to be creative, some value work-life balance, and so on. Values may change with life stages and according to the extent to which a particular value has already been realized. For example, a new graduate strapped by student loans may value a high starting salary. That same person 30 years later may well pass up a high-paying job for one that paid less, but allowed him to live close to his grandchildren or somewhere with greater access to recreational activities.

An individual's values are in large part derived from the social environment in which he or she lives.[6] In Western democracies, life, liberty and the pursuit of happiness are some of the things we value. Other societies value order, harmony, non-violence and equality. If we are brought up with strong religious traditions, some of us develop values based on the teachings of those religions. Similarly, our value frameworks may be influenced by our home life, fraternal societies we join, experiences obtaining an education, the companies we work for, our friends, and many other social influences.

An important sub-set of values consists of those with ethical or social dimensions, such as honesty, integrity, compassion, fairness, charity and social responsibility. Such moral values may be strongly or weakly held and influence behavior accordingly.

Values may be espoused though they may not necessarily be manifested. For example, it's not unusual for people to experience value conflicts in certain situations. When loyalty conflicts with honesty, when fairness conflicts with pragmatism, or when social responsibility conflicts with obligation to shareholders, people become conflicted. And when their actions are inconsistent with their values, they either experience guilt, anger and embarrassment. People try to minimize such cognitive dissonance by rationalizing or even denying their behavior, discounting the consequences of it or simply blaming others.

VIRTUES

From the time of the ancient Greeks, philosophers have defined certain clusters of traits, values and behaviors as "good," and referred to them as virtues. Virtues are like behavioral habits – something that is exhibited fairly consistently. For example, Aristotle wrote that: "We are what we repeatedly do. Excellence, then, is not an act, but a habit."

Aristotle identified and defined twelve virtues: Courage, Temperance, Generosity, Magnificence, Magnanimity, Right ambition, Good temper, Friendliness, Truthfulness, Wit, and Justice. The twelfth virtue is Practical Wisdom, which is necessary to live the "good life" and thus achieve happiness or well being.

Consider the virtue of Courage. Traits such as openness to experience, self-confidence and persistence contribute to individuals acting in distinctive ways – for example, putting themselves on the line and acting in a courageous fashion. Having values such as integrity, treating individuals with respect and achievement predisposes individuals to demonstrate courageous behavior. Furthermore, a person with integrity tends to act in a different way than a person who lacks integrity, even if both individuals find themselves in the same situation. Then there is a set of actual behaviors that individuals engage in – on a fairly consistent basis (meaning across situations and over time) – and that friends, colleagues and observers characterize or describe as courageous. These behaviors may have become societal expectations.

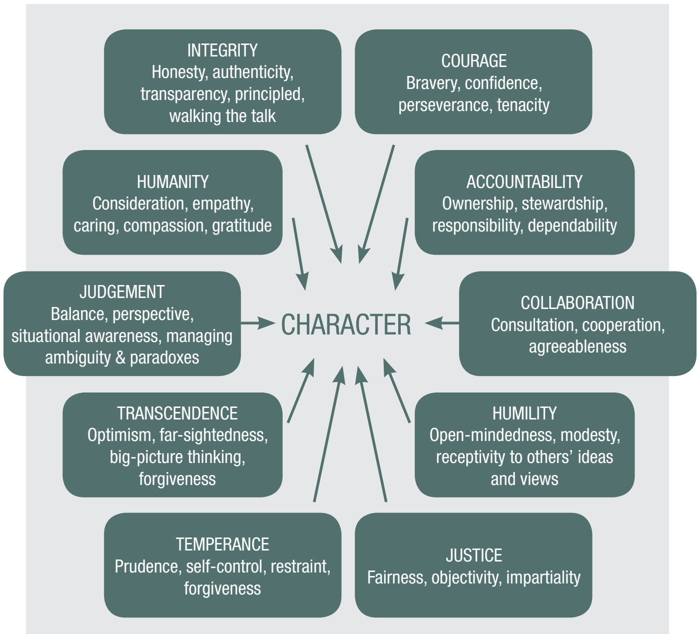
THE TEN VIRTUES OF A CROSS-ENTERPRISE LEADER

We propose that cross-enterprise leaders who focus on the long-term performance of their organizations must demonstrate ten virtues (as shown in Figure 2)[7].

- **Humility** is essential to learning and becoming a better leader
- **Integrity** is essential to building trust and encouraging others to collaborate
- **Collaboration** enables teamwork
- **Justice** yields decisions that are accepted as legitimate and reasonable by others
- **Courage** helps leaders make difficult decisions and challenge the decisions or actions of others
- **Temperance** ensures that leaders take reasonable risks
- **Accountability** ensures that leaders own and commit to the decisions they make and encourages the same in others
- **Humanity** builds empathy and understanding of others
- **Transcendence** equips the leader with a sense of optimism and purpose
- **Judgment** allows leaders to balance and integrate these virtues in ways that serve the needs of multiple stakeholders in and outside their organizations.

Figure 2: Ten Leadership Virtues

But if you consider what may happen when leaders lack these virtues, the effects become more obvious (see Table 1 below).



- **Without Judgment** leaders make flawed decisions, especially when they must act quickly in ambiguous situations, namely when faced with the many paradoxes that confront all leaders from time to time.
- **Without Humanity** leaders are unable to relate to others, see situations from their followers' perspectives or take into account the impact of their decisions on others. Without humanity leaders will not act in socially responsible ways – they will alienate people.
- **Without a Sense of Justice** leaders are unable to understand the issues of social inequality and the challenges associated with fairness. Such leaders act in unfair ways and reap negative consequences in the form of poor employee relations or reactions by customers, governments and regulators. People will rebel and find ways to undermine the leader.
- **Without Courage** leaders will not stand up to poor decisions made by others and will lack the perseverance and tenacity required to work through difficult issues. They will also back down in the face of adversity and choose the easy route. But in doing so they only postpone the inevitable.
- **Without Collaboration** leaders will fail to achieve those worthwhile goals that require more than individual effort and skills. They don't use the diversity of others' knowledge, experience, perceptions, judgments and skills to make better decisions and to execute them better. Friction among different stakeholders results and relations deteriorate.
- **Without Accountability** leaders don't commit to, or own, the decisions they make, and cannot get others to do so. They blame others for poor outcomes and in doing so create a culture of fear and disengagement. People stop caring, with potentially disastrous consequences.
- **Without Humility** leaders cannot be open-minded, and solicit and consider the views of others. They can't learn from others, they can't reflect critically on their failures and become better leaders as a result of those reflections. They become caricatures of themselves. Isolation results.
- **Without Integrity** leaders cannot build good relationships with followers, with their organizational superiors, with allies or partners. Every promise has to be guaranteed and the resulting mistrust slows down decisions and actions.
- **Without Temperance** leaders take uncalculated risks, rush to judgment, fail to gather relevant facts, have no sense of proportion, and make frequent and damaging changes or even reverse important decisions. Their credibility suffers.
- **Without Transcendence** leaders' goals become narrow and they fail to elevate discussions to higher-order goals. They don't see the bigger picture and hence their decisions may reflect opportunism only. They don't think outside the box or encourage others to do so.

Aristotle was clear in stating that virtues become vices in their excess or deficiency.[8] Courage in its excess is recklessness while in its deficiency it is cowardice. Collaboration in excess, ungoverned by judgment as to when it will result in benefits, leads to numerous unproductive meetings and organizational inefficiency. But without it, teamwork is difficult or impossible. Too much humility may lead followers to question the leader's toughness, resulting in a lack of confidence. But without it, leaders make ill-advised decisions and are unable to learn. Transcendence in excess can result in leaders becoming vacuous visionaries, unable to focus on the here and now and the more mundane decisions that need to be made. But without transcendence, leaders focus on narrow, short-term goals.

Table 1: Good and Bad Outcomes of Presence or Absence of Virtues

Virtue	Good Organizational Outcomes (Virtue is present)	Bad Organizational Outcomes (Virtue is absent)
Judgment	Quality decisions, calculated risk-taking, commitment, support, trust.	Lack a balanced assessment of the issues leading to misinformed decisions, confusion, resistance to change.
Humanity	Social responsibility, good employee relations, understanding support.	Misses critical social implications of decisions and actions. Alienation of followers, lack of respect for leader.
Justice	Use diversity, good employee relations, fairness, organizational citizenship behaviours.	Inequities not identified and managed thereby eroding trust. Favouritism, nepotism.
Courage	Decisions made under conditions of uncertainty, confidence to act, opposition to potentially bad decisions, innovation.	Going along with poor decisions. Satisficing rather than maximizing. Moral muteness.
Collaboration	Teamwork, use diversity, cross-enterprise value-added, innovation, learning, affiliation, confidence.	Individualism alienates potential allies. Poor understanding of decisions, friction, conflict.
Accountability	Ownership and commitment to decisions and their execution.	Failure to deliver results and typically creates excuses why not. Shirking of responsibility.
Humility	Continuous learning, quality decisions. Respect, trust.	Ego-driven behaviour, elective listening, difficulty admitting error or failure. Arrogance, overconfidence, complacency, hubris.
Integrity	Builds trust, reduces uncertainty, develops partnerships and alliances, promotes collaboration and cooperation.	Creates mistrust, requires firm guarantees, slows down action, undermines partnerships and alliances, reduces cooperation and collaboration.
Temperance	Quality decisions, reduced risk.	Short-termism, inability to see the possible constraints, instant gratification.
Transcendence	Focus on subordinate goals, big-picture thinking, strive for excellence.	Narrow aims, little inspiration, tunnel vision.

Temperance or Justice in excess may lead to extreme risk aversion and paralysis in decision-making; without them, reckless or grossly unfair decisions are made. Even extreme Accountability may subvert required actions when the penalties for failure are unreasonable or extreme; but without it, empowerment and delegation are not possible. Humanity in excess may lead to the neglect of shareholders' interests; but in its absence, employee loyalty and commitment will suffer. Judgment under conditions of uncertainty or ambiguity is the essential requirement of organizational leadership; but excessive judgment may lead to indecisiveness or dithering. Even an excess of integrity can lead to self-righteousness and total inflexibility; but organizations could not function without rules and regulations that set boundaries. The challenge for leaders, therefore, is to deepen or strengthen a virtue through reflection, and hence avoid turning a virtue such as Courage into the vice of excess (Recklessness) or a lack of it (Cowardice).

Psychologists, sociologists, organizational theorists and others who study behavior in organizations have been interested in traits, values and virtues associated with good leadership. Virtuous leaders are influenced by their traits and values but they balance and integrate them in ways that are appropriate to the situations in which they operate. For example, while leaders may be transparent by nature, they are able to keep a confidence or secret when it is appropriate to do so. While they may be courageous, they will understand which battles to fight and which to avoid.

CHARACTER DEVELOPMENT

Individuals can develop their own character strengths, leaders can help followers develop their character, and organizations can and should enable character development to take place.

How character develops

Some dimensions of character, specifically some traits, are inherited. Virtues, values and many other traits are developed during early childhood, and modified as a result of education, family influences, early role models, work and social experiences, and other life events.

The early philosophers viewed character as something that is formed, subconsciously, through repetitive behavior that is either rewarded or by finding what works through experience. The habit of character is formed along with a myriad of other habits which both enable and constrain us, and that can be both productive and counterproductive. The interesting thing about habits is that we are often unaware of them. There's a famous saying that illustrates this point rather well – “Watch your thoughts, for they become words. Watch your words, for they become actions. Watch your actions, for they become habits. Watch your habits, for they become character. Watch your character, for it becomes your destiny” (author unknown).

As Robert Kegan, a developmental psychologist, said, we need “to resist our tendencies to make right or true that which is merely familiar and wrong or false that which is only strange.”[9] At the core of this capacity is character; hence, character shapes thoughts, words, actions, and so on. Yet, habits may prevent the development of character. For example, a strong ego that has been built to defend one’s identity makes it difficult to develop humility and thus be open to learning experiences. So, when people believe that character is developed at an early age, they are in part correct, since there comes a time when habits are difficult to break. It is not surprising then that it often takes profound life events to liberate us from the cages we have constructed for ourselves.

These “crucible” events have a significant influence on the traits and values that are part of character. Some of these events force people to confront the impact of their trait-and value-driven behaviors, and their self-concept of virtuosity. Being fired, having your work praised or criticized, being passed over for a promotion or being promoted when you didn’t think you were ready for it, finding yourself disadvantaged through a boss’s unfair assessment, or being accused of harassment, plagiarism or other forms of unethical behavior are all examples of events that can shape character.

Less dramatic but no less important are those events that reinforce good character. The acknowledgement, praise, recognition or reward that come to people for doing the right thing or acting in the right way are critical to character development, especially when offered during an individual’s formative years. Selection for a valued assignment or a promotion further reinforces such behaviors and hence, the development of character.

Even normal everyday occurrences offer the opportunity for character development, since it is not something separate from one’s job or life, but rather a part of them. Reflection about why you might be impatient, excessive, stubborn or careless provides the raw material for examining and developing character.

Senior leadership and organizational commitment to character development

There is much that senior leaders in organizations can do to develop leadership character in others. Simply talking about character, making it a legitimate and valued topic of conversation, stimulates discussion and facilitates individual reflection. When organizations develop leadership profiles and address leadership character in those profiles, they emphasize the importance of leadership and promote discussion of it, especially in the context of developmental coaching. Conversely, when leadership profiles only address competencies and commitment, they implicitly, if unintentionally, suggest that character is not important.

Even explicit values statements in organizations often turn out to be nothing more than posters or plaques on the wall. Unless they are formulated in the context of the work that people are doing, and in a meaningful way, they tend to be ignored. Anything that senior management attends to is considered important; anything ignored is marginalized. For the most part, people do not learn values and virtues by osmosis. Values need to be addressed explicitly in the organization’s coaching and mentoring, reinforced through training and development, and actively used in recruitment, selection and succession management.

Personal Commitment to Character Building

Warren Bennis addressed the role of individual responsibility in becoming a better leader when he said: “The leader never lies to himself, especially about himself, knows his flaws as well as his assets, and deals with them directly. You are your own raw material. When you know what you consist of and what you want to make of it, then you can invent yourself.”[10] This is relevant to leadership character as much as it is to competencies and commitment. It requires a degree of self-awareness, a preparedness to examine habitual behaviors and consider whether there may not be better ways of leading than the ones that have worked, more or less, for you in the past. We limit our development as leaders by not having the discipline and courage to assess ourselves honestly.

WHY CHARACTER REALLY MATTERS!

When it comes to leadership, competencies determine what a person can do. Commitment determines what they want to do, and character determines what they will do.

Character is foundational for effective decision-making. Clearly, mistakes are made because of a leader’s shortcomings in his or her competencies. More often, the root cause is a failing of character. For example, not recognizing or not willing to admit that you don’t have the requisite competencies to succeed in the leadership role is rooted in character. Not willing to listen to those who can do well because of the perception that it would undermine your leadership is a problem rooted in character. Challenging decisions being made by others but which you feel are wrong requires character. Dealing with discriminatory behaviors by others requires character. Creating a culture of constructive dissent so that others may challenge your decisions without fear of consequences requires character.

The question is not really why character matters, but why it does not get the attention and respect it warrants. For character to find the spotlight it deserves, leaders need to illuminate it. We can see some light shed in organizational statements of values and leadership competencies, but the practice is not widespread. We believe organizations should move beyond statements of organizational values to anchor leadership development in profiles that define what makes a leader good, in addition to defining what good leaders do and how they can lead better.

Character is not something that you have or don't have. All of us have character, but the key is the depth of development of each facet of character that enables us to lead in a holistic way. Character is not a light switch that can be turned on and off. There are degrees, and every situation presents a different experience and opportunity to learn and deepen character. In particular, and for better or for worse, character comes to the fore when managing a crisis. No one is perfect when it comes to character, and given that its development is a lifelong journey, we will rise to the occasion in some situations and disappoint ourselves and those around us in others.

Numerous examples come to mind where good people do inappropriate things! They get derailed because they stop listening; they become overconfident in their decision-making skills; they become blind to important contextual variables; their emotions hijack their self-control, and so forth. Even good people are fallible. But since we tend to judge ourselves by our intentions and others by their behavior it is easy to become jaded about character. How could someone preach one thing and do another? The point is that in this lifelong journey, we need to appreciate what it takes to develop the habits around character, and to enable the conversations within ourselves and with others that strengthen rather than undermine character.

Competencies count, character matters and commitment to the leadership role is critical to the leader's success. Our experience is that a renewed focus on character sparks the best in people and fuels them in their personal journeys to become better leaders. We see the process of learning to lead as a journey that enables people to bring the best of themselves to support and enable others, ensure that the organizations they work with perform at the highest level, and in doing so, contribute to the society in which they operate.

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- [2]Titles of books on leadership and character include Questions of character: Illuminating the heart of leadership through literature; The character of leadership: Nine qualities that define great leaders; and Inspiring leadership: Character and ethics matter.
- [3] For more information see "Leadership on trial: A manifesto for leadership development" by Jeffrey Gandz, Mary Crossan, Gerard Seijts and Carol Stephenson with Daina Mazutis, 2010. http://www.ivey.uwo.ca/research/leadership/research/books-and-reports.htm.
- [4] This conclusion was reached by Jay Conger and George P. Hollenbeck in a special issue of Consulting Psychology Journal: Practice and Research (2010, 62, 4, 311-316) on defining and measuring character in leadership.
- [5] Examples of such tests include the Myers-Briggs Type Inventory, the Minnesota Multiphasic Personality Test, the 16 Personality Factors, the Personal Style Indicator and many others.
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- [7] Our thinking draws heavily on work by Peterson and Seligman "Character strengths and virtues" (2004) who identified six virtues (Wisdom, Transcendence, Humanity, Temperance, Transcendence and Courage) after extensive consideration of traits and behaviors empirically identified among leaders. We have added four others that we feel reflect virtues considered to be important in cross-enterprise leaders (Collaboration, Confidence, Humility and Accountability) and modified Wisdom to the more commonly used Judgment.
- [8] This follows the argument of Aristotle in the Nicomachean Ethics, Book 3, Chapter 1. While he was describing a limited number of virtues, we believe that his reasoning applies to our extended set.
- [9] From the speech by Matthew Taylor on 21st century enlightenment http://www.youtube.com/watch?v=AC7ANGMy0yo
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Neuroscience and Leadership: The Promise of Insights

Emerging findings in neuroscience research suggest why inspiring and supportive relationships are important — they help activate openness to new ideas and a more social orientation to others. Insights such as these, this author writes, may move the primacy of a leader's actions away from the often proselytized "results-orientation" toward a relationship orientation. Readers will learn about this and other important findings in neuroscience that have the potential to tell us what we need to know to be good, even great leaders.

By Richard Boyatzis

The quest for understanding leadership seems perpetual. Against the context of the daily news that is full of leadership failures and lost opportunities, it seems to be an area of mystery rather than understanding. Advances in neuroscience may help us understand the internal mechanisms that enable some people to be effective leaders, and some not. It will help us to know how some people can form effective leadership relationships, and some not. It will also help us to understand why some people can sustain their effectiveness and others can not. But we are not there yet.

Leaders engage and inspire others – that is how their work gets done. For the last 100 or so years, we have studied their personality, intelligence, values, attitudes and even behavior. But seldom has anyone ventured physiologically inside of leaders. Advances in fMRI (functional magnetic resonance imaging), access to people and machines, and interest in more holistic approaches to studying leadership have made this possible. This has become so popular and hot that a special issue of *Leadership Quarterly* was dedicated to the Biology of Leadership (Senior, Lee & Butler, 2010). In this brief overview, I will use a few of our current studies to highlight some of the areas that seem to hold promise.

BUILDING RELATIONSHIPS

Leaders need to build relationships that inspire and motivate others to do their best, innovate and adapt. In our earlier work, *Primal Leadership* (Goleman, Boyatzis & McKee, 2002) and *Resonant Leadership* (Boyatzis & McKee, 2005), we synthesized a great deal of research to support the idea that effective leaders build resonant relationships with those around them. At the same time, less effective leaders or those that are more one-sided seem to create dissonant relationships. We decided to explore this in one fMRI study.

A study was designed to explore the neural mechanisms invoked as a result of relationships with resonant, high-leader member exchange (i.e., LMX), high-quality relationship leaders, and dissonant, lo – LMX, low-quality relationship leaders (Boyatzis, Passarelli, Koenig, Lowe, Mathew, Stoller, & Phillips, in review). Middle-aged subjects were asked about critical incidents with leaders in their experiences. fMRI scans were conducted, with cues developed from these experiences.

In this exploratory study, preliminary observations revealed that recalling specific experiences with resonant leaders significantly activated 14 regions of interest in the brain, while dissonant leaders activated 6 and deactivated 11 regions. Experiences with resonant leaders activated neural systems involved in arousing attention (i.e., anterior cingulate cortex) , the social or default network (i.e. right inferior frontal gyrus), mirror system (i.e., the right inferior parietal lobe), and other regions associated with approach relationships (i.e., the right putamen and bilateral insula). Meanwhile, dissonant leaders deactivated systems involved in social or default networks (i.e., the posterior cingulate cortex), the mirror system (i.e., the left inferior frontal gyrus), and activated those regions associated with narrowing attention (i.e., bilateral anterior cingulate cortex), and those associated with less compassion (i.e., left posterior cingulate cortex), more negative emotions (i.e., posterior inferior frontal gyrus).

With creative designs, future research can probe the neural activations that various relationships and people have had on us. We can begin to understand *how* they may be affecting our moods and cognitive openness.

POSSIBLE IMPLICATIONS

In *Primal Leadership, Resonant Leadership*, and a more recent article in *Harvard Business Review* (Goleman & Boyatzis, 2008), we offered many examples of leaders who build resonant relationships with others around them — many others around them. And dissonant leaders who seem to turn people off, alienate them, and lose their motivation. The neuroscience findings emerging suggest a basic reason why inspiring and supportive relationships are important — they help activate openness to new ideas and a more social orientation to others.

These insights may move the primacy of a leader's actions away from the often proselytized "results-orientation" toward a relationship orientation. This does not preclude the concern with results, but could show why being first and foremost concerned about one's relationships may then enable others to perform better and more innovatively– and lead to better results. John Chambers of Cisco Systems and Oprah Winfrey of Harpo Productions are both driven to produce impressive results. But when people who work directly with them talk about their meetings, they walk out of them motivated and inspired by what they are doing and their commitment to each other.

EMOTIONAL CONTAGION AND EMPATHY

While most people will acknowledge the role of empathy in understanding others, few appreciate how quickly impressions of others get formed or the neural mechanisms involved. For this we must look to the research on contagion. Prior research has explained mimicry and imitation (Hatfield, Cacioppo & Rapson, 1993). But recent studies, although somewhat controversial, offer three possibilities regarding emotional contagion: (1) emotional contagion spreads in milliseconds, below conscious recognition (LeDoux, 2002); (2) emotional arousal may precede conceptualization of the event (Iacoboni, 2009); and (3) neural systems activate endocrine systems that, in turn, activate neural systems (Garcia-Segura, 2009).

The mirror neuron system has been claimed to foster imitation and mimicry (Cattaneo & Rizzolatti, 2009). This system allows us to discern the: (a) *context of an observed action or setting;* (b) *the action*; and (c) *the intention of the other living being.* They help us to understand the sensing of the goals/intention of another's actions or expressions, and to link sensory and motor representation of them. Even the most recent approaches to emotional contagion that do not focus on the mirror system claim to show a sympathetic hemo-dynamic that creates the same ability for us to relate to another's emotions and intention (Decety & Michalaks, 2010).

Relevant to leadership, there are three implications of these observations: the speed of activation, the sequence of activation, and the endocrine/neural system interactions. The firing of the limbic system seems to occur within 8 milliseconds of a primary cognition *and* it takes almost 40 milliseconds for that same circuit to appear in the neocortex for interpretation and conceptualization (LeDoux, 2002). With this timing, our emotions are determining cognitive interpretation more than previously admitted. Once primary cognitions have occurred, secondary cognitions allow for the neocortical events (i.e., reframing) to drive subsequent limbic or emotional labeling. Our unconscious emotional states are arousing emotions in those with whom we interact before we or they know it. And it spreads from these interactions to others.

Research has suggested that negative emotions are stronger than positive emotions (Baumeister, Bratslavsky, Finkenauer, & Vohs, 2001). As a result, we would suspect that the contagion of negative emotion would ignite a stronger neural sequence than positive emotions. This may serve evolutionary functions but, paradoxically, it may limit learning. Arousal of strong negative emotions stimulates the Sympathetic Nervous System, which inhibits access to existing neural circuits and invokes cognitive, emotional, and perceptual impairment (Sapolsky, 2004; Schulkin, 1999; Dickerson and Kemeny, 2004).

The benefits of arousing positive emotions over negative ones have been demonstrated by Fredrickson and Losada (2004) and others. A contagion of positive emotions seems to arouse the Parasympathetic Nervous System, which stimulates adult neurogenesis (i.e., growth of new neurons) (Erickson et. al., 1998), a sense of well being, better immune system functioning, and cognitive, emotional, and perceptual openness (McEwen, 1998; Janig and Habler, 1999; Boyatzis, Jack, Cesaro, Passarelli, & Khawaja, 2010).

The sustainability of leadership effectiveness is directly a function of a person's ability to adapt and activate neural plasticity. The SNS and PNS are both needed for human functioning. They each have an impact on neural plasticity. Arousal affects the growth of the size and shape of our brain. Neurogenesis allows the human to build new neurons. The endocrines aroused in the PNS allow the immune system to function at its best to help preserve existing tissue (Dickerson and Kemeny, 2004).

POSSIBLE IMPLICATIONS

The most likely implication of these results is that leaders bear the primary responsibility for knowing what they are feeling and therefore, managing the contagion that they infect in others. It requires a heightened emotional self-awareness. This means having techniques to notice the feelings (i.e., know that you are having feelings and become aware of them), label or understand what they are (i.e., giving a label to vague or gnawing sensations), and then signal yourself that you should do something to change your mood and state. Merely saying to yourself that you will "put on a happy face" does not hide the fast and unconscious transmission of your real feelings to others around you.

You are infecting others around you with specific feelings. Some of those feelings help them to perform better and innovate and some are debilitating and inhibit adaptive thinking. Remember, negative feelings, even the unconscious ones, will easily overwhelm positive ones. The leader, because of his/her position of power, has a greater affect on others in a social or work environment. Being able to change your internal state might be one of the most powerful techniques you learn in becoming an effective leader– one who inspires others to learn, adapt and perform at their best.

HELPING AND INSPIRING OTHERS

Leaders should be coaches in helping to motivate and inspire those around them (Boyatzis, Smith & Blaize, 2006). But not any old form of coaching will help. Coaching others with compassion, that is, toward the Positive Emotional Attractor, appears to activate neural systems that help a person open themselves to new possibilities– to learn and adapt. Meanwhile, the more typical coaching of others to change in imposed ways (i.e., trying to get them to conform to the views of the boss) may create an arousal of the SNS and puts the person in a defensive posture. This moves a person toward the Negative Emotional Attractor and to being more closed to possibilities. We decided to test this difference.

In a study, sophomores were coached with each approach (Boyatzis, Jack, Cesaro, Khawaja & Passarelli, 2010). On the basis of two 30 minutes coaching sessions, one to the PEA (asking a person about their future dreams) and the other to the NEA (asking them how they are handling their courses and whether they are doing all of their homework), we found dramatic differences in neural activation. Using an fMRI to track neural activity, it showed significant differences in activation as a result of these two approaches to coaching. We found activation of the orbito-frontal cortex and nucleus accumbens to be positively related to PEA coaching. This also activated a part of the visual cortex in which a person can imagine and visualize something. These are associated with PNS arousal. Meanwhile, the NEA seemed to activate the Anterior Cingulate Cortex and Medial Prefrontal Cortex, both regions known for self-consciousness and reflections while feeling guilt.

These results were consistent with those from Jack, Dawson, Ciccia, Cesaro, Barry, Snyder & Begany (2010) showing that there is a network of brain regions activated when engaged in social activities (formerly called the Default Motor Network in the neuroscience literature). There is a dramatically different network that is activated when you are engaged in analytics or trying to solve a non-social problem. They showed that these two networks suppress each other. That is, when you are busy thinking about budgets, financial analysis, or product specifications, you will have turned off the parts of your brain that are key to social functioning– and visa versa!

POSSIBLE IMPLICATIONS

If you believe that leadership involves inspiring others and motivating them to be their best and develop, learn, adapt and innovate, then activating the parts of their brain that will help requires arousing what we have called the Positive Emotional Attractor. To arouse the PEA, these studies are suggesting that we need to: (1) be social; and (2) engage the person in positive, hopeful contemplation of a desired future. The latter might also be stimulated when discussing core values and the purpose of the organization or project. All too often, people in leadership positions begin conversations about the financials or metrics and dashboard measures of the desired performance. These findings suggest that while important, this sequence confuses people and actually results in them closing down cognitively, emotionally and perceptually. If you want them to open their minds, you need to discuss the purpose of the activity (not merely the goals) and the vision of the organization or clients if a desired future were to occur. THEN, you can lead a discussion about the financials, metrics and measures. But you have made it clear that the measures follow the purpose, they have not become the purpose.

If this sounds like transformational leadership, versus its less effective sibling, transactional leadership, you have made an important connection. But our research shows that you need to arouse the PEA and the NEA to get sustained, desired change. The key appears to be, so far in our research, that you need to: (1) arouse the PEA first; and (2) arouse the PEA sufficiently such that it is about three to six times more frequent in the discussions than the NEA.

Findings such as these may help us to understand, if replicated, how to help others– and how to help us sustain our effectiveness as leaders.

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Managing People & Organizations

The Four Intrinsic Rewards that Drive Employee Engagement

Motivational dynamics have changed dramatically to reflect new work requirements and changed worker expectations. One of the biggest changes has been the rise in importance of psychic, or intrinsic rewards, and the decline of material or extrinsic rewards. This author draws upon recent research to explain the popularity of intrinsic rewards and how these rewards can be used to build a high-engagement culture.

by Kenneth Thomas

I have been researching workplace motivation for about 30 years and I'm amazed at how much has changed recently. Automation and off-shoring have eliminated most of the highly repetitive jobs in the U.S., while global competition has produced flatter, more responsive organizations that require employees to use judgment and initiative to a much greater extent. Over this same 30-year period, the proportion of American workers who say that their work is meaningful, allows them discretion, and makes use of their abilities has more than doubled—from less than one third to about two thirds.[1] In addition, younger workers now come to organizations with different expectations than their parents. Raised during an era of rapid technological change and instant access to data, they respond best to work that is more meaningful, allows them to learn cutting-edge skills, and lets them find their own ways of accomplishing tasks.

Most of the motivational models used today were developed in earlier eras, when work and workers were different. That is why my colleagues and I developed models and strategies of motivation that better reflect the changes in today's work dynamics.[2] In doing so, we discovered that intrinsic rewards have become more important and more prevalent in the workplace today. This article will describe the reasons for this increase and why intrinsic rewards are so important today.

EXTRINSIC AND INTRINSIC REWARDS

Extrinsic rewards—usually financial—are the tangible rewards given employees by managers, such as pay raises, bonuses, and benefits. They are called "extrinsic" because they are external to the work itself and other people control their size and whether or not they are granted. In contrast, intrinsic rewards are psychological rewards that employees get from doing meaningful work and performing it well.

Extrinsic rewards played a dominant role in earlier eras, when work was generally more routine and bureaucratic, and when complying with rules and procedures was paramount. This work offered workers few intrinsic rewards, so that extrinsic rewards were often the only motivational tools available to organizations.

Extrinsic rewards remain significant for workers, of course. Pay is an important consideration for most workers in accepting a job, and unfair pay can be a strong de-motivator. However, after people have taken a job and issues of unfairness have been settled, we find that extrinsic rewards are now less important, as day-to-day motivation is more strongly driven by intrinsic rewards.

THE INTRINSIC REWARDS IN TODAY'S WORK

To identify these intrinsic rewards, we began by analyzing the nature of today's work. Basically, most of today's workers are asked to self-manage to a significant degree—to use their intelligence and experience to direct their work activities to accomplish important organizational purposes. This is how today's employees add value—innovating, problem solving and improvising to meet the conditions they encounter to meet customers' needs.

In turn, we found that the self-management process involves four key steps:[3]

- Committing to a meaningful purpose
- Choosing the best way of fulfilling that purpose
- Making sure that one is performing work activities competently, and
- Making sure that one is making progress to achieving the purpose.

Each of these steps requires workers to make a judgment—about the meaningfulness of their purpose, the degree of *choice* they have for doing things the right way, the competence of their performance, and the actual progress being made toward fulfilling the purpose. These four judgments are the key factors in workers' assessments of the value and effectiveness of their efforts—and the contribution they are making.

When positive, each of these judgments is accompanied by a positive emotional charge. These positive charges *are* the intrinsic rewards that employees get from work, ranging in size from quiet satisfaction to an exuberant "Yes!" They are the reinforcements that keep employees actively self-managing and engaged in their work.

The following are descriptions of the four intrinsic rewards and how workers view them:[4]

- **Sense of meaningfulness.** This reward involves the meaningfulness or importance of the purpose you are trying to fulfill. You feel that you have an opportunity to accomplish something of real value—something that matters in the larger scheme of things. You feel that you are on a path that is worth your time and energy, giving you a strong sense of purpose or direction.
- **Sense of choice.** You feel free to choose how to accomplish your work—to use your best judgment to select those work activities that make the most sense to you and to perform them in ways that seem appropriate. You feel ownership of your work, believe in the approach you are taking, and feel responsible for making it work.
- **Sense of competence.** You feel that you are handling your work activities well—that your performance of these activities meets or exceeds your personal standards, and that you are doing good, high-quality work. You feel a sense of satisfaction, pride, or even artistry in how well you handle these activities.
- **Sense of progress.** You are encouraged that your efforts are really accomplishing something. You feel that your work is on track and moving in the right direction. You see convincing signs that things are working out, giving you confidence in the choices you have made and confidence in the future.

LEVELS OF INTRINSIC REWARDS

Professor Walter Tymon (Villanova University) and I developed and refined a measure of the four intrinsic rewards, now available as the *Work Engagement Profile*.[5] Together with our colleagues, we have used it for research, training, and interventions in a number of organizations in the U.S., Canada, and India.

We found it useful to break down each reward into three levels—high (the top 25% of our norm sample), middle-range (middle 50%), and low (bottom 25%).

High-range scorers experience the four intrinsic rewards most intensely. These rewards are highly energizing and engaging.

Middle-range scorers experience these same rewards to a more moderate degree—as somewhat positive but limited. For example, their work may seem reasonably meaningful when they stop to think of it; they may have a fair amount of choice but have to live with some decisions that don't make sense to them; they may feel they do most things pretty well but not a few others; and they may feel they are making some progress but less than they would like. They experience these reward levels as moderately energizing and engaging—enough to put in a "fair day's work," but end up feeling less satisfied than they would like.

Low-range scorers are dissatisfied with many aspects of their work. They may feel their work is relatively meaningless or pointless, that they are unable to make or influence decisions about how to do their work, are unable to perform work activities very well, and are making little or no headway. Experiencing these feelings drains the workers of energy and they are likely to become cynical and resentful about their job over time.

IMPORTANT BENEFITS OF THE INTRINSIC REWARDS

Our research findings to date reveal the widespread benefits of the above intrinsic rewards for both organizations and employees.[6]

From the organization's viewpoint, our data confirm the impact of the intrinsic rewards on employee self-management. For example, people with high reward levels show greater concentration and are rated as more effective by their bosses. But the benefits extend beyond self-management. The intrinsic rewards are strong predictors of retention. Note that this is the "right" kind of retention—keeping the people who are energized and self-managing rather than those who can't afford to leave. We find that employees with high levels of intrinsic rewards also become informal recruiters and marketers for their organization. They recommend the organization to friends as a place to work and recommend its products and services to potential customers.

The intrinsic rewards are also a relatively healthy and sustainable source of motivation for employees. There is little chance of burnout with this form of motivation. Workers with high reward levels experience more positive feelings and fewer negative ones on the job. Their job satisfaction is higher, they report fewer stress symptoms, and are more likely to feel that they are developing professionally.[7]

Overall, the intrinsic rewards seem to create a strong, win/win form of motivation for both an organization and its employees—and one which suits the times. This type of motivation is focused on the shared desire that employees' work makes an effective contribution to meaningful purposes, so that it is performance-driven. It embodies the kind of self-management and professional development demanded by younger workers. It does not depend on large outlays of money to generate extra effort, so that it is feasible when funds are tight. Furthermore, intrinsic rewards do not require that a boss be present, as exemplified by the growth of the virtual work and telecommute environments.

Despite these benefits, however, a number of managers underestimate the importance of intrinsic rewards, and continue to treat financial rewards as the key factor in motivating others. While some of this bias may simply come from their use and familiarity with older models, there is another explanation. Research shows that, although people are quick to recognize the role of intrinsic rewards in their own behavior, there is a general tendency to assume that *other* people are motivated mostly by money and self-interest.[8] In our workshops, for example, managers are commonly surprised to learn that intrinsic rewards are valued as much by their employees as by themselves. So, it is important to educate the managers in your organization on this issue.

BUILDING A HIGH-ENGAGEMENT CULTURE

In our work with managers, change agents and training specialists, we have developed seven guidelines for building a culture that supports high levels of engagement and intrinsic rewards:[9]

1. Begin with a meaningful purpose.
Unlike financial rewards, you simply can't task the Human Resources Department with developing an "intrinsic reward system." Building intrinsic motivation is largely a line management responsibility, although HR can offer considerable help. That responsibility begins with spelling out a meaningful purpose for the organization. To be meaningful, this purpose usually needs to involve more than profit, tapping directly into the contribution that the organization's work makes to its customers—the contribution that allows it to earn a profit. Again, it is largely that sense of contribution to something of value that drives the entire self-management process.

2. Build intrinsic motivation and engagement into management training and executive coaching.
As mentioned earlier, managers tend to recognize the role of intrinsic rewards in their own motivation, but often underestimate their importance for other people. To build a culture of engagement it is important to incorporate training on intrinsic motivation and employee engagement into management development programs. We also find that managers are more credible and effective in promoting the value of engagement when they first learn how to better understand and manage their own intrinsic rewards. Training typically begins by getting managers in touch with their own intrinsic rewards and then shifts to learning how to support the intrinsic rewards of their direct reports. At executive levels, the four intrinsic rewards also provide a useful framework for executive coaching. For example, the New West Institute builds its coaching on executive transitions around the four rewards, identifying what would be most meaningful for the executives in their new position, what choices they have, the new competencies they need to build, and the ways they will identify progress.[10] Training and coaching, then, are an important part of embedding intrinsic motivation and engagement into the organization's culture.

3. Focus conversations on meaningfulness, choice, competence and progress.
Leaders from the top down need to convey the same message—that the organization stands for doing work that matters and doing it well. When approaching any work project, leaders can underline the importance of contribution by focusing discussions on the basic questions in the self-management process:

- What can we do here that is meaningful?
- What creative choices can we think of to accomplish this?
- How can we make sure we're doing this work competently?
- How can we make sure we're actually accomplishing the purpose?

These questions bring employee contributions to the foreground and highlight the intrinsic rewards.

4. Engage the "middle."
Pay special attention to building intrinsic motivation for people in the middle ranges—the large group that is only somewhat engaged. If you are able to move their intrinsic rewards to the high range, they will combine with the people who already highly engaged to form a

large majority of highly engaged, energized people—the critical mass needed to support a culture of high engagement.

5. Measure intrinsic reward levels.

Without some way of assessing the state of intrinsic rewards in your organization, you will be flying blind. We use the *Work Engagement Profile* for systematic measurement, though with experience it is possible to get a rough sense of reward levels from everyday conversations with employees.[11] Measuring the reward levels will show you the overall level of engagement in your organization and allow you to recognize improvement. It will also allow you to determine if any rewards are at lower levels than others. Because self-management requires all four reward levels, the lowest rewards will tend to act as a drag on overall engagement over time—so that they deserve special attention.

6. Provide missing building blocks for intrinsic rewards that you need to bolster.

Each reward has its own unique building blocks. Building a sense of competence involves actions that are different than those used in building a sense of choice, for example. The following is a list of key building blocks.[12]

Sense of **Meaningfulness**:

- A non-cynical climate—freedom to care deeply
- Clearly identified passions—insight into what we care about
- An exciting vision—a vivid picture of what can be accomplished
- Relevant task purposes—connection between our work and the vision
- Whole tasks—responsibility for an identifiable product or service

Sense of **Choice**:

- Delegated authority—the right to make decisions
- Trust—confidence in an individual's self-management
- Security—no fear of punishment for honest mistakes
- A clear purpose—understanding what we are trying to accomplish
- Information—access to relevant facts and sources

Sense of **Competence**:

- Knowledge—an adequate store of insights from education and experience
- Positive feedback—information on what is working
- Skill recognition—due credit for our successes
- Challenge—demanding tasks that fit our abilities
- High, non-comparative standards—demanding standards that don't force rankings

Sense of **Progress**:

- A collaborative climate—co-workers helping each other succeed
- Milestones—reference points to mark stages of accomplishment
- Celebrations—occasions to share enjoyment of milestones
- Access to customers—interactions with those who use what we've produced
- Measurement of improvement—a way to see if performance gets better

Notice that some of these building blocks involve relatively observable or "hard" elements, such as job designs, information systems, and formal authority. Others involve "softer" aspects of organizational culture and managerial style, such as a non-cynical climate, celebrations, trust, and skill recognition.

7. Adopt a change and implementation process that is itself engaging.

You could try to build intrinsic rewards using a centralized, top-down decision process. But we find that it makes more sense to use the change process itself as a means of fostering high levels of engagement. That was the genius of the Work Out process used by Jack Welch to help change the culture at GE.[13] Similar processes are now used for planning and change in a number of organizations.[14] In these applications, participatory processes allow teams of employees to identify meaningful work-related problems, recommend solutions that make sense, apply their diverse competencies, and experience a rapid sense of progress. When these processes address the building of intrinsic rewards and engagement, they not only yield workable solutions but also produce their own sense of excitement—which often serves as a significant turning point in the organization's culture.[15]

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- Information on New West's approach to executive transition coaching is available at www.newwestinstitute.com.
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Why Good Ideas Die… and a Simple Approach to Saving Them.

Many a good idea has been sabotaged by a co-worker who, during a presentation, cuts right in to say, "That's a good idea but…" Readers of this article will learn what tactics they can use to effectively disarm and discourage such a saboteur and allow their ideas to be heard fully and ultimately win acceptance.

By Lorne Whitehead

"AND ANOTHER GOOD IDEA IS LOST"

"Thank you. That concludes my presentation. Are there any questions?"

Samantha has just presented her proposal to the Capital Investment Committee. She has done everything right so far. Her team was tasked with finding an "out-of-the-box" solution to a critical problem. They consulted widely within the company, with customers, and outside experts. When a great solution emerged they checked in with the various interest groups. They adapted to feedback and kept key influencers informed. Their clear, concise proposal outlines the main factors, the need for this proposed innovation, the method followed to develop the proposal, the alternatives that were considered and the advantages and risks of their recommendation. They were also careful to get the "look and feel" right – their process was professional and appropriate. It was all textbook classic.

At first, a few committee members ask Samantha some pretty innocuous questions. But then, all of a sudden, Dan Jones clears his throat and the room falls silent. Here's the thing about Dan Jones – he knows how to *act* like a team player, but in truth, he isn't one. In this case, Dan sees Samantha's rapid career advancement as a personal threat.

He speaks: "Samantha, I appreciate your group's hard work, but in all honesty, I have to question whether this was appropriate because [blah-blah…worry-worry…], so I move that before we consider your "scheme" it should first be referred to the Legal Issues Committee where these concerns can be properly addressed."

Samantha opens her mouth but she just can't find the right words. Dan's attack (and that's really what it is) feels unfair and unjustified, but right now, at this critical moment, she does not have a simple, effective rebuttal. She feels that whatever she says will make matters worse. But she has to say something, and even as she speaks she knows her comments aren't responding well to Dan's "gotcha." So, the pile-on begins. First, one person picks up a detail in her response and asks a question that she cannot entirely understand or answer. Then, Dan comes in with another zinger. She looks around the room for support. Silence.

The committee votes to send Samantha's proposal to what might as well be called the *Committee for Infinite Delay*. As a result, the company misses an important opportunity. In a few months, Samantha will leave. She'll be OK – but will the company she left behind also be OK?

Does this scenario seem familiar? We have all witnessed, far too often, excellent ideas that die, even though they have been very well communicated. They die for reasons that are not completely rational. This can be infuriating and, more importantly, result in huge opportunity costs for the company.

It shouldn't have to be this way. Moreover, for business leaders today, such lost opportunities are simply not acceptable. The stakes are higher and the challenges greater now because our world is changing at a much more rapid pace than ever. Businesses have always had to adapt in order to survive, and this has always been a challenge because adaptation requires good ideas, consumes resources, and entails risk. But today the rate of change is easily twice what it was 20 years ago. Yet the resources and expertise available for *adapting* to change have increased very little, if at all.

John Kotter, professor emeritus of Harvard Business School, has focused significant research on the challenge of large-scale change. From this research he has developed what he calls an 8-Step Process for Leading Change*. Critical to the success of this model is the concept of engaging the organization – creating buy-in for the change. We wrote our book, ***Buy-In: Saving Your Good Idea from Being Shot Down,*** to help address some of the challenges in getting that critical engagement and support. The only way to overcome these challenges is to develop an understanding of the problem and some possible solutions. In the book and in this article, we will show you a counterintuitive, yet highly effective method to ensure that important good ideas can prevail. But first, we need to understand the problem of why people shoot down good ideas.

IDEA-KILLING ATTACKS

Why would anyone want to kill a good idea? Most of our co-workers are decent people who want good things to happen. But people are also complex, and many of us, from time to time, may be susceptible to common, human failings that can lead to the premature demise of a good idea. These failings may include jealousy, fear, complacency, confusion, conflict of interest, short sightedness, vanity, and gullibility. However, the causes do not really matter – you can only respond to the behavior, namely the launching of challenging attacks to your ideas. The best antidote (a respectful, clear, short, simple rebuttal) serves you well, regardless of the attacker's motivation.

We've observed that these attacks all share several characteristics. They can be used to strike almost any good idea (which makes them useful for habitual attackers); they can be easily customized to suit the idea at hand (which makes them appear thoughtful and worth considering); they can seem well-intended (which builds sympathy for the attacker); and they are very difficult to refute if you are not prepared for them (which is why they usually work so well).

Through our research, we have identified 24 distinctly different attacks that are commonly used. It seems a bit daunting, because this is too many for most of us to memorize. But we have devised some simple, straightforward and easy-to-remember ways to understand and combat attacks.

FOUR TACTICS PEOPLE USE TO ATTACK GOOD IDEAS

There are four underlying tactics for shooting down a leader's suggested plan or proposal. Sometimes these tactics are used in combination. These are:

- **Delay.** Your opponent makes a reasonable-sounding case that we should wait (just a bit) until some other project is done, or that we should send this back into committee (just to straighten up a few points), or (just) put off the activity until the next budget cycle. He may then divert attention to another legitimate, pressing issue: There's the sudden budget shortfall, the unexpected announcement from a competitor, the growing problem here, the escalating conflict there. This attack works well most of the time, often causing an irreversible slow-down in getting the group's buy-in.
- **Confusion.** Your opponent raises questions or concerns that so muddle the conversation with irrelevant facts, convoluted logic, or so many alternatives that it is impossible to have clear, intelligent dialogue upon which to build support for your idea ("If you will look at page 46 in the document I just passed out, it suggests that market share in China will fall within three years, and if you go to page 58…"). The conversation slides into endless side discussions. Eventually, people conclude that the idea has not been well thought-out. Or they feel stupid because they cannot follow the conversation, which causes anger that easily flows back toward you and your proposal.
- **Fear mongering.** Someone seizes on an undeniable fact ("Your idea sounds a lot like the project we launched three years ago") and then spins a tale around it, outlining consequences that can be truly frightening or, more often than not, simply push people's hot buttons ("That failed, and several people on our team were laid off.") The logic that connects a past fact to an imagined outcome will often be faulty, even silly, but it can still be very effective. Once aroused, the crowd's anxieties won't necessarily disappear when you offer an analytically sound rebuttal.
- **Ridicule.** Your opponent doesn't shoot bullets directly at the idea; she targets the person or people behind the concept instead. Usually this works best when the attack is sugar coated. You may be made to look silly, incompetent, hypocritical, or worse. This tactic is used less than the others, probably because it can backfire so easily on the attacker. But when it works, there can be collateral damage: Not only is the idea wounded, your reputation may be tarnished and your credibility takes a hit—hurting not only this idea but possibly future ones as well.

HOW CAN YOU OVERCOME SUCH ATTACKS?

To combat the use of these tactics, we have developed methods for saving your good idea from getting shot down. They are a bit counterintuitive. As with many thing that are more an art than a science, they require both the right attitude and the right actions. The keys to responding to an attack are:

- **Don't push away opposing viewpoints; let the lions into the arena.** As you try to build support for your idea, you may be inclined to clear the field of people who you think may oppose your good idea. Maybe you leave them off an e-mail distribution list or schedule meetings or teleconferences when you know the most disruptive types will be away. That may seem smart, some people have even had success with such approaches. But it is more powerful to use opposing viewpoints as a platform for gaining the attention and engagement your idea is going to need. With more attention, you have a better chance to make your case. You may even draw some sympathy or admiration because you're willing to stand in front of a firing squad.
- **Don't respond with endless data and logic; simple common sense can be more powerful.** It's only natural, when your fabulous idea is attacked, to go over it again, explaining all its virtues in detail while emphasizing all those places where your opponent has gotten it wrong, wrong, wrong. For a very short while it may make you feel better, but it won't work. It's better to keep your responses—all of them—short and focused, allowing no time for thoughts to wander from the topic at hand. No jargon, no complex arguments, just a generous dose of common sense. This can be particularly effective in warding off confusion attacks by removing the swirl of alternatives that may cloud people's minds.
- **Always be respectful; don't let it get personal; don't fight back**. It's critical to bite your tongue, no matter how tempted you may be to lash out against what you perceive to be an unfair reaction to or representation of your idea. Gaining buy-in is as much about making an emotional connection as an intellectual one, and encouraging mutual respect in a heated discussion about a proposal can go a long way toward winning hearts. Of course, we're hardwired to want to fight, run away, or defend ourselves when attacked. But talking sensibly and respectfully works better. The more mindful we are of how easily dysfunctional behavior can pop up, the easier it is for us to keep others in check.
- **Focus on the crowd; not the attacker.** It is natural, when hit with confusion, fear mongering, character assassination, or delay strategies, to focus one's attention on the attacker. That's a big mistake. At the risk of stating the obvious again, remember: You are seeking buy-in from a solid majority, which need not include those few who really want to sink the proposal. So don't allow yourself to get sucked into a debate with a few disrupters, thereby losing touch with the quiet majority you need to reach. If you don't pay sufficient attention to them, you may not realize in time that they are becoming confused, afraid, or being drawn into a delay. Watch the crowd very carefully for signs that you are losing their attention. Scan the nodding heads for smiles or frowns, for growing energy or the lack thereof.
- **Carry out careful, case-specific, preparation.** Generally, you will find it very helpful to review the 24 specific generic attacks we identify in Buy-In, before you face the inquisition. The Appendix below lists some of the most common ones and includes generic effective responses for each. They are presented in a deliberately simplistic manner, for you to enhance. If the stakes are high enough, you may benefit from holding a small group-brainstorming session in which you review the possible forms of attack. For each, it's very helpful to consider specific ways that an attacker may approach your particular situation. This is easier than it sounds, because in any given case, many of the attacks won't apply, while others may be quite obvious and won't need much thought. But for the attacks you find both relevant and tricky – could be 5, could be 14 – brainstorming will be invaluable. You will uncover potential attacks that you otherwise would have missed, and you will discover the benefit of having a respectful, effective response at your fingertips when you really need it. This homework needn't take long and it is more than worth the effort, because very few of us can respond well in real time to completely unexpected attacks.

Samantha was blind-sided by Dan's diversionary delay tactic. Like many of us, she did not respond well to this unexpected attack. Had she prepared herself, she would have been able to respond smoothly by acknowledging Dan's concern, while assuring the group that her team will successfully address it, just like the many others that were solved while developing the proposal. Samantha should have confidently communicated that the task was well in hand and that the proposal should continue on its course, welcoming feedback in the process. The method proposed here for fending off unfair idea-killing attacks offers a straightforward way to prepare for the dreaded, inevitable unknown. It also can give you the confidence Samantha lacked. As a result, you will be able to reflect and react faster and more effectively during tough discussions. The net result will be that good ideas will more often be adopted, which will help both their proponents and their intended beneficiaries throughout our society.

APPENDIX: SOME FAMILIAR AND GENERIC ATTACK FORMS

Below is a sampling of the 24 generic attacks mentioned in this article. A generic response is suggested to help brainstorm each one. For the full listing of attacks and their responses visit kotterinternational.com/KotterPrinciples/BuyIn/AttacksAndResponses.aspx.

#1 We've never done this in the past and things have always worked out OK.
True. But surely we have all seen that those who fail to adapt eventually become extinct.

#3 You are exaggerating. This is a small issue for us if it is an issue at all.
To the good people who suffer because of this problem, it certainly doesn't look small.

#14 I'm sorry – you mean well, but look at this problem you've clearly missed! You can't deny the significance of this issue!
No one can deny the significance of the issue you have raised, and, yes, we haven't explored it. But every potential problem we have found so far has been readily solved. So in light of what has happened again and again and again, I am today confident that this new issue can also be handled, just like all the rest.

#16 We tried that before and it didn't work.
That was then. Conditions inevitably change (and what we propose probably isn't exactly what was tried before).

#18 Good idea, but it's the wrong time. We need to wait until this other thing is finished (or this other thing is started, or the situation changes in a certain special way).
The best time is almost always when you have people excited and committed to make something happen. And that's now.

#23 It will be impossible to get unanimous agreement with this plan.
You are absolutely right. That's almost never possible, and that's OK.

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For more information on the 8-Step Process fo Leading Change, visit kotterinternational.com/kotterprinciples/changesteps

innovation

Strategic Innovation and the Fuzzy Front End

Innovation is a process, and while the introduction of a genuinely innovative product or service may be highly publicized or even glamorous, the process itself is driven much less by creative brainstorming or strategic planning than by carefully managed and highly-sophisticated cross-disciplinary thinking and research. Readers will learn how to manage the critically important first steps from this thinker, author and CEO.

By Idris Mootee

The need for 21st-century mindsets and protocols has heightened interest in innovation. The manifestation of that need is a process we call the fuzzy front end, an insight-driven, prototype-powered and foresight-inspired search for new ideas that can be applied to products, services, experiences, business strategies and business models. It is both a creative and an analytical process to better identify customer needs, collect insights, explore white space and create possibilities.

It is often an ongoing challenge for companies to synthesize a sea of insights and identify breakthrough innovations for which demand has yet to surface fully AND prevent being blindsided by aggressive competitors. The challenge lies on several fronts: the gathering and filtering of ideas, the creative manifestation and experimentation of ideas, the internal selling of ideas, and capturing economic value from them. To meet this challenge, managers normally resort to hosting an offsite brainstorming session. However, this exercise usually lacks rigor and creates a large pool of diverse ideas with little relevancy to the business strategy. The drive for off shoring and optimization has further discouraged companies from experimenting with new ideas. Industry leaders particularly are at risk of failure, due mainly to their inability to see the next big thing and their false sense of relative competitive advantage. This is why the fuzzy front end is so critical and needs to be engineered into a company's strategic planning process. In this article, I describe a systematic approach for managing that fuzzy front end, one that has the right tools and frameworks, and that is a very effective mechanism for getting a sharper picture of the future and identifying opportunities outside the current roadmap.

MANAGING THE STRATEGIC FUZZY FRONT END

Innovation is only strategic when all activities related to it are aligned with reenergizing the core or connecting adjacent or future business opportunities with the core. Otherwise, pursuing uninformed innovation paths is likely to lead to failure. Successfully managing the fuzzy front end requires the following:

- Combining specific skill sets, tools and methodologies from different disciplines in order to uncover the most salient bits of information and insights that will ultimately inspire and help shape the development of value-creating innovations.
- Balancing divergent exploration and investigation with convergent analysis.
- Developing and articulating a more holistic awareness of current and emerging consumer needs, mind-sets, values, and expectations.
- Collecting, organizing, and making sense of the forces that will help shape the acceptance and practicality of new products, services, and business models etc.
- Synthesizing and clarifying competitive opportunities in order to help establish the most effective starting points for innovation.
- Helping organizations better understand choices and explore opportunities early on, prior to investing a great deal of time and resources.
- Clearly articulating potential solutions for customer-centered feedback and learning.

The methodology used to drive these activities – that once consisted of random insight collection and creative brainstorming – has become more sophisticated. For example, numerous disciplines now collaborate to leverage the potential of their unique skills and tool sets.

By establishing more formal and structured front-end processes, organizations have been able to increase the value, speed and quantity of high-potential concepts as well as the probability of their success.

More sophisticated methodology, however, has not completely eliminated the most common symptoms of front-end failure. These include:

- Not asking the right questions that help frame/ guide the design and scope of initial research and investigations.
- An inability to organize and make sense of massive qualitative and quantitative insights, and apply them to opportunities mapping.
- Creating bridges between innovative ideas and current business models, leading to the abrupt cancellation of projects in midstream because they don't "match the company's business strategy."
- Not giving "top-priority" innovation projects the required attention because there is no senior executive sponsor or because key people are "too busy" to spend the necessary time working on them.
- Failing to articulate how innovative ideas can create economic value and how this value can be captured, as well as failing to determine the opportunity cost of these innovations.

Complicating and magnifying the difficulty of managing these challenges is the fact that this first stage of the strategic innovation process is commonly referred to as the "fuzzy" front end. The adjective "fuzzy" is appropriate because at no other stage is the future context of an innovation as uncertain, ambiguous and complex. As well, this is the stage where organizations typically suffer from a deficit of actionable, "future-oriented" information, and lack the meaningful customer insights required to help them set/re-calibrate goals, make design decisions, and pursue innovations with confidence. "Fuzzy" also points to the scale and variety of unpredictable, non-linear drivers and inputs (behavioral, socio-cultural, political, environmental, economic, technological etc.) that may or may not combine to shape the future desirability, acceptability and feasibility of a given innovation.

Against a backdrop of such uncertainty and ambiguity, it is easy to understand why the front end's role in innovation is first and foremost about learning in order to clarify and recognize an opportunity. This is because the focus in this first stage is on the methodical acquisition, synthesis, sharing, creation and expression of contextual relevant knowledge and insights that will ultimately help feed downstream foresight, opportunity mapping, ideation, prototyping and validation exercises.

THE SEVEN, CLARIFYING PHASES OF THE FUZZY FRONT END

The fuzzy front end of our strategic innovation process consists of seven phases:

- Collecting customer insights (UCI)
- Developing strategic foresights (DSF)
- Sense making and opportunity mapping (SOM)
- Ideation and concept development (ICD)
- Rapid concept prototyping (RCP)
- Customer co-creation (CCC)
- Brand / market assessment (BMA)

Our extensive experience in studying and applying the principles of front-end innovation activities in over 100 companies has enabled us to identify and create certain best and next practices in each of these phases. From our descriptions below, the reader will take away a good understanding of the most effective frameworks, tools, and techniques for managing the critically important strategic fuzzy front end.

PHASE 1: UNCOVER CUSTOMER INSIGHTS (UCI)

Managing the fuzzy front end begins with ethnographic research into unknown and unmet human needs. We do this for one reason: Innovative ideas transform behaviors, cultures and consumers. To truly understand these things – to know and feel them so they inspire organizations to move forward – the tool we employ to identify and communicate true insights is anthropology.

The study of human culture and society, anthropology's territories of inquiry and expertise, are vast: myths, symbols, signs, tools, technologies, performances, rituals, communities, communications, languages and the multitude of ways we manipulate, create and innovate our selves and our identification with them.

To cover that territory and bring back a true understanding of, and appreciation for, customer needs, our anthropologists draw on ethnographic research. Ethnography is the art and science of telling stories about people's stories. It's how anthropologists study and tell stories about people in the spaces and places where they live, work, play, shop, eat and imagine the world around them.

Drawing on the inter-disciplinary research methods and social theories that frame every project, our teams seek to identify micro (tactical) and macro (thematic, cultural) insights that provide a critical lens and insider perspective on the beliefs, behaviors and attitudes that drive consumers and shape their cultures and communities.

For many, the anthropological approach to ethnography is a radical shift away from traditional market research. Ethnography reveals customer narratives whereas surveys produce only data. Ethnography relates dreams, hopes, histories, memories, fantasies, experiences and performances in everyday life. Focus groups, on the other hand, only offer opinions. Ethnography depicts real people in real situations, not in personas. And where market research creates speculation, ethnography informs and drives innovation.

The UCI phase typically includes four core activities:

- Design field research: With our clients and through stakeholder interviews and/or observations, we begin by identifying the critical questions, challenges and areas of inquiry that will frame our study. Here, we decide on methodology, timing, recruiting, location, market segment and other tactics to be used in our research.
- Conduct ethnographic research: Watching, participating, asking and being in the same psychic and physical spaces and places as consumers enables us to understand and articulate their stories. Those stories can be pursued in tandem with other research methods, at any stage in a project lifecycle and, depending on the scope of inquiry, quickly as required or over an extended period of time. The earlier that we are involved in that lifecycle, the better the outcome.
- Frame the insights. Working with strategists, designers, experience architects and other specialists, our formally trained, PhD-level anthropologists draw on social theories and field data to map patterns and identify strategic opportunities by suggesting new metaphors, contexts and behaviors.
- Organize the data and present the deliverables and/or workshops that will best socialize our findings and recommendations in our client's organization. We pride ourselves on creating clear, concise and critical reports, documentary video, photographs and consumer profiles that will tell a deep story in an accessible way and that will begin to yield value immediately.

PHASE 2: DEVELOP STRATEGIC FORESIGHTS (SF)

The primary goal of Strategic Foresight is to help individuals and organizations identify, understand, envision, and gain access to future "What if" contexts. This is done to avoid surprises, better understand their choices, and the potential long-term impacts of actions/inactions. At the front-end, strategic foresight is about "future proofing."

Strategic Foresight generally seeks to define futures that incorporate changes in consumer behavior, motivations, values, and expectations. It also questions and explores the disruptive potential of technology and its impact on the design of new products, services, experiences, and business models.

Activities in this phase also aim to improve "situational awareness" and generate constructive inputs that enhance downstream sense making and opportunity-mapping exercises. This is achieved by developing a variety of future-oriented scenarios that help team members and organizations situate themselves "in the future," set and define new goals and/or strategic objectives, and discuss their potential outcomes.

The primary tools and activities used in this phase typically include:

- Environmental Scanning
- Context Mapping
- Scenarios Development
- Scenarios Workshop

PHASE 3: STRATEGIC SENSE-MAKING AND OPPORTUNITY MAPPING (SOM)

Strategic sense-making and opportunity mapping is a convergent exercise that focuses on distilling and synthesizing all previously gathered knowledge, insights, and foresight so that key patterns, themes, and opportunity spaces can be defined, discussed, expanded upon and explored.

At this stage, the opportunities are described only in broad terms. Sheer idea productivity is more important than the articulation of low-level details given to ideas that have the potential to capitalize on "white space." Identifying "white space" opportunities necessitates exploration into areas adjacent to, but outside, your traditional business boundaries These white spaces are considered against the team's understanding of organizational strategic intent.

An opportunity map is a tool that allows us to look at the competitive landscape through new lenses. Maps typically contain unique sets of attributes (i.e. customer insights, key signals and themes, drivers, etc) that help describe gaps and openings, spaces that have yet to gain the attention of competitors. Additionally, opportunity maps help innovation teams explore ideas within specific frameworks or guidelines that have been defined and validated by research.

In this phase, multi-disciplinary teams collaborate to organize and classify the information into opportunity spaces, which may include or be shaped by:

- Unmet consumer needs
- Newly-discovered consumer needs
- Unarticulated customer needs
- Broad customer aspirations
- Key gaps
- Value drivers
- Distinctive intersections
- Macro product & service-design trends
- Key enabling technologies

Creating and refining opportunity maps include the five following activities:

- Validating themes. A team discusses, debates, contrasts, and compares opportunity-space attributes against research findings and organizational/brand understandings.

- Forming combinations. Roughing out and loosely articulating opportunities by combining insights, themes, and signals from research in ways that leverage and make sense of their attributes and potential.

- Crafting thick descriptions. The opportunity space is clearly defined and articulated.

- Testing. Opportunity spaces are tested against a point scale that is designed to maintain consistencies with the overall project and business objectives. Each map is also put through a "spark test," that must inspire a minimum number of initial product ideas within a condensed time frame in order to be included.

- Meta mapping and design. Once the initial/individual maps have been validated, described, and tested, the team steps back to place them in the right proximity to one another. This is done within a larger meta view, or perspective, that explicitly suggests a coupling of one or more opportunity spaces whose attributes may align, compliment and enhance one another.

PHASE 4: IDEATION AND CONCEPT DEVELOPMENT (ICD)

The Ideation and Concept Development phase draws on all learning, discussions and feedback that took place in the previous 3 phases to elicit ideas that sit within, between, and adjacent to the previously defined opportunity spaces.

At the front-end, ideation and concept development is intended to be intuitive, open-minded and rough around the edges. Emphasis is placed on generating a large volume of high-potential ideas, defining real contexts of use and user experiences, articulating benefits, and describing how an idea/concept may align customer needs, organizational competencies, and business goals. Early on, rational criticism is generally set aside as a follow-up or secondary activity specifically employed to "rein-in" emotionally charged ideation-and-concept development sessions.

Core activities in this phase typically include:

- Group Sharing of initial ideas, which provides an informal time and space that help team members dump, vent, and share any ideas, abstract thoughts, and intuitions they developed during the previous phases. All content is captured and circulated for review.

- Ideation & Concept Re-Articulation, a follow up to the more informal venting of ideas. It methodically moves through opportunity spaces one-by-one and in combination, describing and re-articulating ideas and concepts. Here, more critical and rational lenses are applied. This process is usually complimented by collaborative "white-board" sketching, which helps improve communication and inspire the further building upon/evolution of ideas.

- Written Descriptions, which capture and describe the ideas from all previous ideation sessions in greater detail, for review and selection.

- Idea/Concept Review & Selection: Prior to undergoing more intensive concept sketching, ideas and concepts are reviewed by a core team with a deep understanding of the research, business, and organizational goals, in order to determine the most desirable/feasible and compelling ideas. In some cases, a variety of metrics and filters are employed to further analyze the potential of an idea before moving forward.

- Initial 2D Concept Sketching brings ideas to life through a variety of expressive techniques including: simple product sketches that communicate intended function and form, basic platform wireframes and information architectures, device and or interface mock-ups, maps, system and experience cycle diagrams. Initial, concept sketches may explore a variety of formal and functional approaches to one idea so that diverse qualities and characteristics can be expressed and discussed.

PHASE 5: RAPID CONCEPT PROTOTYPING (RCP)

Prototyping is an iterative process that focuses on expressing and collecting information on requirements, and on the adequacy and functionality of innovative product ideas. Rapid prototyping and prototypes – as a process and as a tangible output/artifact – are an important data resource used during the stages of product development.

The goal of RCP is to leverage various, rapid-prototyping techniques to provide the right model / artifact types, which can be used for different testing procedures, e.g., internal design evaluations, and consumer co-creation and context labs. At the front-end, these techniques help reduce costs.

Idea Couture's front-end prototyping typically manifests itself at three levels of output and fidelity, depending on the product / idea type and its associated testing requirements. These three levels are:

- Low-Fidelity Rapid Prototype, or a representation of an idea that goes beyond a sketch, yet is clearly unfinished and rough. A low-fidelity prototype helps bring people onto the same "conceptual page" by communicating the essence of an idea quickly and efficiently. The prototype is used to inspire questions, further discussion, and ideation, providing just enough information to obtain initial feedback for learning and decision-making.

  Low fidelity "paper prototypes" can be made quickly, at a low cost and with little effort. They usually explore and expand on ideas rather than reduce and evaluate them. They also demonstrate the bits and pieces of what could be, rather than what is or will be. Because of their low cost, paper prototypes can also be used to explore one idea from a variety of perspectives, playing with, suggesting and testing a multiplicity of potential directions.

- Mid-Fidelity Rapid Prototypes represent the gradual refinement of an idea. A medium-fidelity prototype incorporates feedback and knowledge gained from previous prototyping phases and focuses on increasing the execution of an idea by communicating its critical elements (forms, functions, and flows) in more detail. A medium-fidelity prototype, while obviously incomplete, demonstrates more clearly the intended scale, style, proportion, functionality, and user experience of an idea. While a low-fidelity prototype might seek to explore and even exaggerate these elements, a mid-fidelity prototype appears to be a more rational, focused, tangible, usable execution of the idea. It is also interactive enough to elicit more detailed and measurable feedback. Finally, a medium-fidelity prototype should help to expose/reveal mistakes early and cheaply enough so as to reduce risks and avoid increased development costs further down the road.

- 3D CAD Based Renderings & Modeling: Mid – to high-fidelity 3D renderings establish a very clear picture of an idea and can be almost infinitely manipulated/ adjusted to communicate that idea within a variety of chosen contexts. Once created, a 3D rendering enables designers to quickly and efficiently visualize formal alternatives i.e. proportions, colors, textures, material finishes, branding variations etc. While not a physical representation, high-fidelity renderings offer scalable and compelling concept-visualization alternatives that help close the imagination gap among stakeholders. For additional hands on testing and evaluation, computer renderings can be outputted as more concrete 3D and costly rapid-prototyping processes like stereo lithography (SLA) or fuse deposition modeling (FDM).

PHASE 6: CUSTOMER CO-CREATION (CCC)

Customer Co-Creation Labs are exploratory sessions designed to identify and examine consumers' behaviors, motivations, needs, opinions, attitudes and ideas. Conducted as informal peer-group conversations, and through a series of semi-structured individual exercises, they give participants an active voice in designing the brands, experiences and engagements that will best fit into and fulfill the context of their lives.

At the front-end, Customer Co-Creation Labs help bring customers deeper into the early stages of the innovation process, empowering them to help shape the final outcomes. These collaborative "hands-on" sessions enable critical learning to emerge from such direct input and interaction. The knowledge and insights captured from labs is fed directly back into the early stages of concept design and development, helping teams further clarify directions and make critical improvements. Additionally, Co-Creation Labs help mitigate downstream risks by placing ideas in front of customers early, in order to capture critical feedback.

Labs are usually planned, designed, and run by a multi-disciplinary team that includes anthropologists, designers, human factor specialists, and usability strategists. This inter-disciplinary approach guarantees that many unique perspectives, lenses, and personalities will help to connect with, observe, and extract a diversity of salient information and feedback from customers during and after creative sessions.

Core activities in this phase typically include:
- Goal setting
- Lab design
- Co-creative facilitation
- Post-lab reviews
- Key insights & recommendations
- Knowledge transfer

Customer Co-Creation Labs help to:
- Uncover additional customer needs and motivations.
- Re-evaluate assumptions and insights from previous research phases.
- Obtain meaningful feedback about potential idea and design directions by placing early stage rapid prototypes in front of end-users.
- Elicit highly personal customer-centric ideas through active hands-on co-creation.

PHASE 7: BRAND AND MARKETING ASSESSMENT (BMA)

Idea Couture blends qualitative and quantitative tools, methods, and analysis in order to understand how new ideas/concepts may fit into existing brand narratives and market segments, as well as to develop insights about how innovations may help create, extend, or evolve a brand toward new markets. We do this by conducting Brand and Market Assessments.

It is important to take brand and market assessments into consideration early on, at the front-end, because they are integral to the successful introduction and adoption of an innovation. Such assessments identify and develop an understanding of how key or target customer segments are likely to perceive forthcoming innovations. They also determine if new products and services are aligned with existing brand positions, value propositions and customer expectations.

Idea Couture blends qualitative and quantitative tools, methods, and analysis in order to understand how new ideas/concepts may fit into existing brand narratives and market segments, as well as to develop insights about how innovations may help create, extend, or evolve a brand toward new markets.

Generally speaking, most innovations fall into one of two categories, disruptive or incremental. Disruptive Innovations are those that have the power to re-define and/or establish new markets, and introduce and shape entirely new brand personalities and narratives. If an organization is pursuing an innovation with disruptive potential, it will be important to identify and gain an understanding of how the potential attributes and value propositions will be perceived by customers, and how levels of acceptability/desirability etc. may in turn influence design and development considerations.

Incremental Innovations typically have to play within or slightly adjacent to existing market segments and integrate /align their attributes with ongoing brand narratives. At the front-end, it is still important to make sure that the introduction of a new product, service or experience does not deliver promises and expectations that have been met already.

Companies that don't fully understand the complexity or try to ignore or otherwise underestimate the efforts and know-how required to navigate the fuzzy front end will pay a high price. In many cases, the new product will offer what the customer values or create value for the organization. Or, the resulting product may be perfectly viable in the marketplace, but will be missing the right positioning and strategy to promote adoption. Perhaps the greatest price paid will be a loss of the organization's confidence in innovation and the opportunity cost associated with that loss. Our strategic fuzzy front-end integrated innovation process with inputs and outputs that fit together within one holistic system can improve innovation success rate by four fold.

Innovation is a process, and while the introduction of a genuinely innovative product or service may be highly publicized or even glamorous, the process itself is driven much less by creative brainstorming or strategic planning, than by carefully managed and highly-sophisticated cross-disciplinary thinking and research. In the end, getting innovation right has more to do understanding how to apply the opportunity algorithm to create growth in mature industries or create new ones.

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What is Success in Innovation?

"Necessity, who is the mother of invention."

(Plato, The Republic, 347 B.C.)

"Cash flow is the father."

(Roger More, 2009)

"The idea is to get more cash out than we put in."

(Tony Soprano, The Sopranos TV Series, 2008)

"Innovation is the process of change that creates and grows wealth."

(Roger More, 2010)

By Roger More

It appears that innovation means at least several things to different people – any new product or service, value creation or a particular "culture of innovation." But these and many other "interpretations" of innovation are meaningless, as this author contends. In fact the only thing that matters is whether an innovation creates wealth. And the only metric for determining wealth is net cash flow. As he writes, "If an innovation is pumping real positive net cash flow over time, all of the other assorted financial metrics will be just fine! If it is losing cash flow, the other metrics don't matter!"

Over the past decade, there has been a continuous and voluminous global outpouring of government concerns, media reports, corporate comments, and business school writing and research on the critical need for more "innovation" at every level of corporate and government management. Inadequate funding and the lack of a commitment by corporations and governments to "innovation" have been cited as major causes of different countries' "non-competiveness" on the global stage. The subliminal premise and presumption behind much of the writing is that "innovation" is always needed, always useful, always positive, and always a good allocation of scarce cash and human resources. For many people, it has literally come to be seen as its own objective; doing more "innovation" of all kinds and committing more and more cash and human resources are always productive and always effective uses of these scarce resources.

This paper will argue that much of the current writing, research, conceptualization, and perspectives on innovation are shrouded in a series of dysfunctional, hopelessly complex, irrelevant, non-measurable academic theories, myths, ambiguities, half-truths, and fuzzy thinking that defeat innovation's usefulness to real-world professional managers. These are the managers who have to decide which specific technological and other innovations to develop, adopt, bundle and integrate into their competitive market strategies, and to which ones they should commit real cash and human resources.

This paper will also argue that the primal objective of innovation must be to create and grow real wealth, which is the long-term, net cash flows of companies that develop, apply and bundle technological and other innovations with the products and services they take to competitive global markets. It is critical to put this hard cash flow metric of success on "innovation", and to conceptualize it as a tough set of specific, well-defined strategic choices for professional managers. It is also critical that we stop considering innovation as a universally desirable human trait of "leadership", or a set of corporate and management activities, or a cultural dimension of people and organizations.

Without this hard cash flow metric , "innovation" and much of the writing and research on it degenerates into a vague, mythical and largely useless organizational cliché like many others, including "leadership" ,"sustainable development", "environmentally friendly", "socially responsible", "social capital" and a host of similarly fuzzy homilies with little or no strategic or managerial substance in reality, no shared concept or connotation, and no metrics to determine their utility and value.

This paper will also argue that there is no shortage of technological or other "innovations" in most companies; nor any shortage of new ideas for new technologies, products, services, or processes for creating and delivering them. There is, however, a desperate shortage of successful innovations, namely those that can create and grow wealth. Many examples can be cited of “innovations” that were exciting but that also wound up losing huge amounts of cash. This paper will argue that the major problem with innovation is not insufficient cash flow into innovation; it is insufficient cash flow out! Corporations and governments fund too many losers!

Business schools bear a unique and special responsibility for these innovation scenarios. They are the organizations that are at the core of the development, teaching, writing and research on professional management, in both business and government. Given the staggering amounts of cash that will be spent by corporations and governments in the future on technological and other innovations, the role of professional management becomes paramount.

The critical core and essence of professional management is the complex organizational realities facing managers making the difficult strategic choices for scarce cash and human resources in companies. Innovation represents one of the most complex and difficult management processes for strategic choice. It is the clear responsibility of business school research to create new concepts and tools to help managers in the processes of making these choices in specific real-world innovation situations.

INNOVATION: THE MANAGEMENT CHALLENGE

No matter what your view or perspective is on the meaning of “innovation,” including technological innovation, there is little doubt that over the next fifty years, if you measure the relative importance of the corporate and government cash and human resources that will be committed to different strategic decisions globally, innovation, especially technological, will be by far the largest expenditure. It will also be the most critical strategic competitive factor in global business.

Over the past decade, there has been a continuous outpouring of government concerns, media reports, corporate comments, and business school writing and research on the critical needs for innovation at every level of corporate and government management. The cry that “our country doesn’t do enough innovation to compete globally” is becoming a familiar mantra in Canada and many other countries. “We have to spend more on innovation”. In many countries, a plethora of new government programs are constantly coming up and mutating, often confusing, conflicting, and hopelessly administratively complex and inefficient. Entire office buildings are filled with government bureaucrats running these programs.

At this point, there is yet another wave of Canadian federal government concern and massive additional funding for more “innovation”. A recent article in MacLean’s magazine illustrates this. (1). “Nuclear industry gets big boost.” The article goes on to say that the throne speech specifically promised to bolster science and technology spending in order to “fuel the ingenuity of Canada’s best and brightest and bring innovative products to market.”

A number of quotes from the ongoing wave of concern about innovation are worth noting:

- “Innovation is the route to economic growth. Innovation is the creation and transformation of new knowledge into new products, processes or services that meet market needs. As such, innovation creates new businesses and is the fundamental source of growth in business and industry” (2)
- “A report from the OECD says that in future Germany should develop more innovation in its domestic market” (3)
- “Canada is poor in creating innovation, and other OECD countries outperform us; we rank 14th among OECD countries. R and D financing by the Canadian private sector remains considerably below the OECD average. In terms of business investing, Canada ranks 15th.” (4)
- “The Science, Technology, and Innovation Council state of the union report confirms Canada’s underperformance in innovation. Data indicates that our nation suffers from low business R and D” (5)
- “It’s beginning to look like bad news for the innovative edge the United States has long enjoyed. From 1995 through 2001, China, South Korea, and Taiwan increased gross R&D spending by about 140 percent, while the U.S. increased its investment by only 34 percent” (6)

From these notes, and many more, it is clear that innovation is seen as playing a central and leading role in economic success in many countries. It is also clear that the funding and effectiveness of innovation is a widely-shared topic of deep and major concern in most if not all countries.

What is equally clear is that, in too many of these situations, the conceptual meaning of “what innovation is” and “what success means” is shrouded in complete ambiguity and confusion, and seen differently by almost everyone you ask. Until these questions are clarified, billions upon billions of dollars will be invested globally by companies and governments, frequently with no impact, or worse, result in huge and untracked cash losses.

INNOVATION: THE MANAGEMENT REALITIES

It may be a painful reality but the fact is that real innovation can only be created by managers in companies competing in global product, services, and processes marketplaces. In viewing the management of innovation in these companies, it is critical to get close to the real world competitive realities facing these professional managers.

It is important to understand the tough realities they face and the competitive and strategic context for specific innovation decisions. Too often these decisions are looked at in isolation, as though they can be analyzed, interpreted and decided outside the context of the complex competitive global situation the managers and the company are facing. Some of the major factors characterizing and influencing this particular management reality are the following:

- Individual product and services innovations seldom add any value in isolation; they must be integrated and physically "bundled" with a wide range of other physical and process technologies to be applied. This presents great potential risk, since a particular innovation can appear to create competitive value by itself, but may not be compatible with the physical and process infrastructure in which it must be embedded. As an example, Intel may come up with a computer microprocessor innovation, but it may be too fast for the other components in a particular notebook to run with. ("You don't put a Ferrari engine in a dump truck.")
- A huge range of internal and external factors affect the success and failure of any innovation. Innovations can have interesting and positive characteristics in and of themselves, but in a real competitive situation there are hundreds if not thousands of internal and external factors, many outside the control of the management team involved, that will affect the success or failure of an innovation.
- What this means is that any innovation, if it is to hope to be successful, has got to have a huge advantages and offer competitive differentiation against the existing and competing "bundled" customer solutions.
- In addition to all of these challenges and difficulties managing the innovation-development processes in companies, there is an equally complex set of customer and market network-adoption processes to manage. When adopting a particular technological innovation, organizations can take a long time to go through a very complex adoption process. In many cases adoption is very slow, making the imperative to develop companies' cash flows even more intense.
- In the midst of all these factors that can affect the success or failure of an innovation, specific decisions are made by managers. These decisions involve conceptual, organizational and analytic processes of enormous ambiguity and complexity. Different parts of the organization may be involved, different functional managers, different geographic areas, and different manufacturing plants. There are a lot of decisions that have to be made that affect each other, and there is certainly an element of chaos.
- Different managers and organizational processes have different cultures, different personalities, different power systems, different reward and compensation systems for the success of innovation, however it's viewed.
- At the real level of market competition, where innovations ultimately have to make their impact, and in specific product/service/market segments, every competitive and market situation is largely unique. There are no simple or general solutions. A particular innovation might be successful in one market, in one segment, in one geography, and fail miserably in another. There are no boilerplate solutions; no two competitive strategies are the same. A winning innovation for one company can be a losing innovation for another. So, an innovation is not in and of itself good or bad, it depends totally on the unique and complex DNA of the company and the specific competitive situation.
- Another huge complexity with innovation and all professional management decisions is that the evidence is clear that, faced with a particular strategic situation in all its complexity, any two different teams of managers will see different factors as key and will make different strategic choices. A particular innovation will be viewed differently individually and by any group of managers who are looking at it. This has huge consequences for choosing innovations that can be successful versus innovations that are clearly sure to fail. Individual managers and those in a group will see it quite differently. And a fantastic innovation from the viewpoint of one group will be seen as a potential disaster from another group's perspective.

There is no way to predict the success of any innovation before its introduction. This begs the question of what makes an innovation a success.

Every competitive strategy, every marketing strategy, and every innovation has the possibility of failure. There are numerous examples of innovations that started out with great potential and wound up as dismal failures. So at the very best, innovation is partly a "crap shoot." It's an issue of the probabilities of success; there is no way of viewing any innovation as an absolutely sure thing to succeed.

WHAT IS INNOVATION?

Clearly, the word "innovation" represents a complex "construct," a concept of wide and divergent dimensionality and conceptualization. Virtually every literature, writer, and manager has a different view of how to conceptualize "what it means," and what dimensions and processes define it. In itself, this is a major methodological challenge.

The following is a brief sampling of some of the wide variety of concepts that would tell us what "innovation" is:

- "Innovation is the production or adoption, assimilation, and exploitation of a value-added novelty in economic and social spheres renewal and enlargement of products, services, and markets; development of new methods of production; and establishment of new management systems. It is both a process and an outcome." (8)
- "Innovation is reflected in novel outputs: a new method of production, a new market, a new source of supply, or a new organizational structure, which can be summarized as doing things differently." (9)
- "Innovation is a new way of doing something, or new stuff that is made useful." (10)
- "Innovation occurs when someone uses an invention or an idea to change how the world works, how people organize themselves, or how they conduct their lives." (11)
- "Innovation is generally understood as the successful introduction of a new thing or method. Innovation is the embodiment, combination, or synthesis of knowledge in original, relevant, valued new products, processes, or services." (12)
- "Innovation is a new element introduced in the network which changes, even if momentarily, the cost of transactions between at least two actors, elements, or nodes, in the network." (13)

The above sampling represents only a few of literally thousands of disparate, vaguely defined, confusing and clearly non-measurable concepts of innovation. In itself, this plethora of vague concepts represents a major block to any attempt to study and manage innovation.

But it is much worse than that. Governments all over the world are throwing billions of dollars at "innovation" programs and incentives , with no coherent or shared concept of what it is or how success in innovation can be measured. As a result, many government programs have become completely politicized, much more about political optics than reality.

WHAT IS SUCCESS IN INNOVATION?

The question of what success means in innovation is one of enormous complexity. Suffice it to say that there are as many concepts and definitions of success as there are government agencies and managers in the global universe of competing companies. Many measures of the successful innovations seen in management and research literature are simply not measurable. And therein lays a major problem. We have a whole range of soft and loose measures for determining successful innovation. Many of these measures have been used widely in government funding of innovation, and frequently without any concern for what they mean conceptually or with any means of actually measuring them. Some examples of commonly seen "success concepts" are:

- Commercialization
- Market introduction
- Bundling or integration into a product or service
- Export to some market
- Purchase by a particular customer
- Generation of some revenue dollars
- A successful application of the technology in the sense that it physically works
- Formation of a "company" based on the innovation
- Value – creation

Value – creation occupies a special place in this list of potential "success" metrics. To be successful, an innovation must clearly create differentiated value for the sets of buyers involved. However, the problem is that creating value for customers can cause or be accompanied by huge cash losses for the company involved. According to this definition, the majority of Nortel's innovations created value – while the company went bankrupt.

There are many more of these "success" concepts. These diverse, often-conflicting, and mostly non-measurable concepts present major barriers to any notion of the coherent professional management of innovation. Worse, every one of the above concepts can be presented as a success, while the venture suffers huge, real cash flow losses.

THE CRITICAL QUESTION OF MEASURABLE OBJECTIVES

The objectives for any innovation must be measurable. Objectives that are not measurable are just so much "fluff" and completely useless to managers in any situation. Many of the above innovation objectives are just that, such as "commercialization", "market introduction", "export to a global market", and so on. But equally dangerous are measurable objectives that are misleading or downright irrelevant, such as revenue, market share, and others.

A NEW CONCEPT: INNOVATION AS WEALTH CREATION AND GROWTH

I believe that the only useful and valid definition of innovation is the following one: "Innovation is the process of change that creates and grows wealth."

By this concept, the artificial separation of "what innovation is" and "the objectives of innovation" is eliminated, and the primal purpose and success metric of innovation to create wealth is clearly established.

An excellent exemplar of conceptualizing innovation clearly as wealth and cash flow creation is General Electric, one of the leading-edge companies in embracing net cash flow creation and growth as the primary driver of overall financial performance, and the whole range of other financial metrics. In outlining the GE concept of breakthrough projects, one writer notes that "breakthrough projects are planned undertakings aimed at achieving tangible, bottom-line (net cash flow) results in a short period of time."(14)

It follows that if business school research is to help managers, the primary research focus must be on management process research that provides real-world tools and concepts that managers can apply in managing different stages and parts of the innovation process for specific innovation opportunities.

UNDERSTANDING REAL WEALTH CREATION: CASH FLOW – EARN VS. BURN

Historically, many different, misleading and conflicting financial measures of wealth creation have been observed and applied. These include:

- Revenue
- Profit
- ROI
- ROE
- ROA
- EBITDA

In many cases, these metrics can indicate financial "success," even though net cash flows are negative! An obvious example is revenue (an innovation can generate high revenue in dollars per year, yet lose huge amounts of net cash flow!) There are many other examples.

This paper strongly suggests that the most useful and realistic financial metric for wealth creation is net cash flow. Wide and credible recognition of the centrality of net cash flow as the ultimate real metric of financial success and disastrous failure has been slow in coming. Such recognition has also been hastened by the recent debacles in the banking and investment community, General Motors, and Nortel, not to mention WorldCom. To put it simply, if an innovation is pumping real positive net cash flow over time, all of the other assorted financial metrics will be just fine! If it is losing cash flow, the other metrics don't matter!

LINKING INNOVATION TO NET CASH FLOW: THE CRITICAL DRIVERS

Once you have a clear set of cash flow metrics, they can be connected to the drivers of net cash flow for product and service innovations. A primal and simplified concept of cash flow creation is shown below. Over the time horizon of the innovation, the forces of negative cash flows (fixed costs and investments) must be overcome by the forces of positive cash flow (revenues x margins) to create positive net cash flows (NCF). In simplified conceptual summary:

- POSITIVE CASH FLOWS, $/YEAR ("CASH EARN") = REVENUE ($/YEAR) X PERCENT MARGIN (%)

- NEGATIVE CASH FLOWS,$/YEAR ("CASH BURN") = FIXED COSTS ($/YEAR) + INVESTMENTS COSTS ($/YEAR)

- NET CASH FLOWS (NCF, $/YEAR) = POSITIVE CASH FLOWS – NEGATIVE CASH FLOWS = CASH EARN – CASH BURN

If these cash flows are well and brutally estimated before any cash is committed to an innovation, and tracked and estimated during the process, analyzed as they unfold, and tracked after market introduction and buyer adoption, they are cruel and unyielding; you can't make a "loser" look like a "winner".

THE NEED FOR ACCOUNTING AND FINANCE CASH FLOW TRACKING

Sadly, the fields of accounting and financial analysis are just today waking up to the realities of cash flow tracking, often replacing it with a bewildering array of complex, confusing, contradictory, and often misleading financial metrics. Recent experience has shown that the bankruptcies of GM, Nortel, Lehman Brothers and others were finally signalled by largely unseen, unmeasured, untracked, unexpected, unpredicted and catastrophic cash flow losses.

The most unbelievable aspect of these similar cases is the fact that, while these losses were occurring, each of these companies had hundreds of MBAs from the finest business schools in senior finance and accounting roles! The simple fact is that, in many of these cases, these managers were tracking the wrong financial metrics, as this paper has previously noted. As a result of these disasters, a quiet revolution in finance and accounting is gaining steam to focus on cash flow tracking.

TRACKING INNOVATION PROCESS CASH FLOWS: THE CRITICAL DIMENSION

"The idea is to get more cash out than we put in."
(Tony Soprano, the Sopranos TV Series, 2008)

The brutal reality of cash flows for the innovation process is that the negative cash flows ("cash burn") come first (investments and fixed costs), and the positive cash flows ("cash earn") come later. Here, the crude wisdom of Tony Soprano and his mobster colleagues shines: Over the time span of the entire innovation process, you have to "earn" more cash than you "burn." It is conceptually childishly simple, yet it seems to elude many managers, financial analysts, accountants, bankers, and government staff who should know better.

As a result, there are many examples of innovations that "burned" so much cash that it was mathematically impossible for them to ever "earn" enough cash to create any net cash flow! Why were they not stopped? A spectacular example is the case of General Motors' Saturn.

Over the span of its development and market life, Saturn lost at least $11 billion of cash flow. Careful examination of this case shows that, early in its development, it became clear that there was no mathematical way Saturn could ever produce positive net cash flow. In the project, the early investment and fixed costs commitments (cash burn) were so high that there was no mathematical chance of ever overcoming them with positive cash flow (cash earn). As the market entry and plans for adoption precede, the cash flow dynamic takes over and reacts to the strategy and all the strategic changes managers make.

TWO INNOVATION FAILURES

It is not difficult to find examples of innovation failures. Each product or service innovation will be briefly described primarily on the characteristics outlined earlier, that predictably drive it into high negative net cash flow or make it highly inferior in net cash flow to competing solutions to the problems.

Wind Turbines

The need for more kilowatts per hour (KWH) of electrical power globally is growing and serious. In the face of this, there are a range of power generation sources, depending on location and the unique country situation. The innovation of wind turbines has been widely touted as a strong, "green" renewable electric energy source. However, careful analysis reveals that turbines are hugely inferior in wealth creation and cash flow terms compared to nuclear power plants.

Positive cash flows

- The amount of money paid by household and business power users in $ per MWH (megawatt-hour) has tended to be somewhat stable and low. They have been driven by the historical large-scale "conventional "power plants, long-term government debt amortization supported by long power plant life-cycles, and the roles of government power monopolies and regulation. It is unlikely that household and business power users will be willing to pay a multiple of today's $/MWH, so any real cash losses will show up somewhere as taxation or government subsidies.
- Because of their intermittent operation (wind does not always blow), wind turbines need power backup from some other sources (example of another source) to sustain the needs of the electrical power grid.

Negative cash flows

- Investments per MWH of power are far higher for wind power than for nuclear energy, and other power sources.

- Operating fixed costs per MWH are far higher for wind power than for nuclear energy, especially when you analyze the realities of up-time and actual power outputs of existing wind turbines.
- A recent article by Schleede (15) highlights in detail the extreme inefficiency and high investment and operating costs of wind turbines when compared to other alternative energy sources.
- Another article by Will (16) outlines the incredible cash flow inefficiency of wind turbine power compared to nuclear power. Will notes that "America, which pioneered nuclear power, is squandering cash on wind power, which provides 1.3 percent of the nations' electricity: it is slurping up $30 Billion of tax breaks and other subsidies amounting to $18.82 per MWH, 25 times as much as the combined subsidies for all other forms of electricity production." He goes on to note that, "To produce 20 percent of America's power by wind would require 186,000 tall (40 stories tall) turbines, and occupy land area the size of West Virginia. The same power could be produced by four nuclear plants occupying four square miles of land."

What all this means is that the positive cash flows per MWH from both wind and nuclear power from the sale of MWH are about the same, but wind turbines use far higher negative cash flows per MWH to generate the power. Compared to nuclear power, wind power is an innovation failure.

General Motors Volt electric/gas hybrid car

The excitement around the innovation of alternative energy cars, and particularly "electric" cars, is well known. Faced with its imminent collapse, General Motors is introducing the innovation of the Chevy Volt electric/gas hybrid car. Again as above, a cursory analysis of the underlying cash flow fundamentals reveals huge, likely long-term net cash flow losses from this innovation:

Positive cash flows

- From a competitive point of view, Volt is not an electric car, such as the Nissan Leaf, and other emerging products. It really competes with gas/electric and diesel/electric alternatives, of which there are many on the market already.
- Revenues will likely be very low, with likely very low unit sales, with very high Volt prices, limited range, a small market segment for ultra-high gas mileage "green" cars, and successful existing and proven competitive cars at much lower prices and proven reliability (Toyota Prius, Honda Insight, Honda Civic hybrid, Ford Fusion hybrid and others).
- Margins will likely be slim and possibly negative, with very high variable production costs compared to likely car prices. A key component of these high variable production costs will be the batteries, which have proven to be a major problem for GM.
- Positive cash flows will therefore be very low, if there is any at all. If margins turn negative, potential positive cash flow also turns negative. If this occurs, the whole Volt innovation will suffer even greater cash losses.

Negative cash flows

- Investments will likely be very high, with new motive technologies never tried before, and extremely high and uncertain battery technologies and costs.
- Fixed costs will likely be high, with limited cross-vehicle scale economies and sharing with other cars in the General Motors portfolio. Also, GM seems determined to build its own battery production plants.

THE CRITICAL IMPORTANCE OF STOPPING INNOVATION LOSERS

One of the major problems facing managers and companies in their innovation processes is recognizing and trying to stop the negative cash flows going into losers that once looked like winners. Two examples were cited earlier. Sadly, there are many more.

The Chevy Volt project is a dangerous example. By General Motors' own account, the car will likely suffer major negative cash losses for at least a few years for the reasons cited above. The risk here is that, in the future, many more competitors will enter the electric car market, notably from China and South Korea. These companies have already proven their ability to compete with high quality, low-priced, high – customer-value cars already, such as Hyundai and Kia. They will be formidable competitors in the electric car market segment. So why not stop the Chevy Volt innovation and go back to the drawing board?

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sustainability

The Top Ten Reasons why Businesses aren't More Sustainable

"It doesn't fit the business case," or "How are we supposed to measure the impact?" are just two of the most common excuses corporations offer for not drawing up and implementing sustainability initiatives in all aspects of their operations. These authors met with some of the leading practitioners of sustainability and identified how organizations can stop making excuses and start building sustainability into everything from supply chain activities to HR practices.

by Pamela Laughland and Tima Bansal

The evidence is in: Firms that invest in sustainability are no worse off financially than those that do not.[1] Plus, their employees, customers, and investors are happier and more committed.[2] Even the simplest of activities, such as philanthropy, can yield financial rewards.[3] So, why isn't every firm jumping on the sustainability bandwagon?

What is Business Sustainability?
Business sustainability is often defined as managing the triple bottom line – a process by which firms manage their financial, social, and environmental risks, obligations and opportunities. We extend this definition to capture more than just accounting for environmental and social impacts. Sustainable businesses are resilient, and they create economic value, healthy ecosystems and strong communities. These businesses survive external shocks because they are intimately connected to healthy economic, social and environmental systems.

We asked 15 organizations that are on the leading edge of sustainability to tell us why. In fact, every year, we assemble representatives from leading corporations in different industries to brainstorm and discuss the reasons why Canadian firms don't take action on social and environmental issues. The top 10 reasons they identified are listed below.

THE PROCESS FOR IDENTIFYING THE TOP 10

Fifteen representatives of leading organizations across different sectors gathered for a one-day roundtable in Toronto to identify the top 10 sustainability issues facing Canadian business for 2011. This Leadership Council, which convenes annually to set priorities for the Network for Business Sustainability, included BC Hydro, Canadian Pacific, Environment Canada, Holcim Canada Ltd., the International Institute for Sustainable Development, Industry Canada, The Pembina Institute, Research In Motion Limited, SAP Canada Inc., Suncor Energy Inc., TD Bank Group, Teck, Telus, Tembec, and Unilever Canada Inc. These firms identify global priorities from the Canadian perspective, to ensure that the priorities have global relevance. These representatives engaged in a 3-stage process:

1. Identifying their own individual issues;
2. Aggregating and refining the issues into meaningful categories; and,
3. Ranking priorities by importance.

This process yields a set of issues that is representative, prioritized, and agreed-upon. Current and past priorities for the Network for Business Sustainability can be found here.

Top 10 hurdles for business sustainability in 2011

- There are too many metrics that claim to measure sustainability—and they're too confusing.
- Government policies need to incent outcomes and be more clearly connected to sustainability.
- Consumers do not consistently factor sustainability into their purchase decisions.
- Companies do not know how best to motivate employees to undertake sustainability initiatives.

- Sustainability still does not fit neatly into the business case.
- Companies have difficulty discriminating between the most important opportunities and threats on the horizon.
- Organizations have trouble communicating their good deeds credibly, and avoid being perceived as greenwashing.
- Better guidelines are needed for engaging key stakeholders, such as aboriginal communities.
- There is no common set of rules for sourcing sustainably.
- Those companies that try leading the sustainability frontier often end up losing.

We discuss each of these hurdles below.

1. THERE ARE TOO MANY METRICS THAT CLAIM TO MEASURE SUSTAINABILITY—AND THEY'RE TOO CONFUSING.

What gets measured gets managed. Issues or goals without obvious metrics are much harder to tackle. Sustainability initiatives can be particularly difficult to measure because they often affect people and society at a macro level, and their organizational implications are unclear. Further, their impacts are not immediately obvious and they depend on who implements them and how. Many suites of metrics and measurement systems—such as the Global Reporting Initiative, ecological footprint, and life-cycle assessment—currently exist to help managers measure their sustainability.

The range of options often results in more problems than solutions. What makes one metric or suite of metrics better than another, and how can businesses judge which is most appropriate for their needs? As one manager said: "It's important to know which sustainability metrics are most meaningful and integrate them with traditional business metrics." Managers recognize that different metrics serve different purposes: some are most relevant to particular sectors, such as manufacturing, while others focus on specific issues, such as carbon. Some metrics focus on products whereas others focus on organizations; some set common benchmarks, whereas others inspire leadership. It seems as if there is a veritable cacophony of metrics, standards, and certifications. Even leading businesses need guidance on which ones will help them benchmark, signal their commitment to sustainability, and identify areas that need improvement.

2. GOVERNMENT POLICIES NEED TO INCENT OUTCOMES AND BE MORE CLEARLY CONNECTED TO SUSTAINABILITY.

Governments have several tools at their disposal, such as taxes, regulations, and markets, to encourage businesses to steward environmental resources. However, they are often applied in piecemeal fashion, poorly measured, or used ineffectively. Businesses and management often want to "do the right thing", and appropriate policy can support this mindset. Leading businesses want policies that push all organizations to improved sustainability outcomes. In doing so, firms can put into place long-term measures and innovate new products and practices that move them closer to those goals.

Businesses also want to know the best practices for collaborative consultation and policy development involving government, business, and other stakeholders. They do not want to be adjuncts, but to work with government collaboratively and meaningfully. One manager asked, "How can we build bridges between government and business that will allow for knowledge sharing and a solid foundation for future business sustainability-related policies?" In other words, business wants to be involved in the process such that the resulting policy is effective, efficient, and consistent with both the needs of business and society.

3. CONSUMERS DO NOT CONSISTENTLY FACTOR SUSTAINABILITY INTO THEIR PURCHASE DECISIONS.

Many decisions consumers make – from what food to buy to how much energy to use – involve sustainability-related tradeoffs. We constantly trade off different types of impacts (social, environmental, or economic) at different levels (personal, communal, or societal) over different time periods (now or later). In the words of one manager: "Many people demand cleaner energy but refuse, for example, to allow windmills in their community. How can we help consumers make informed tradeoffs when it comes to sustainability?"

Understanding how consumers value sustainability in the context of other product attributes would help businesses develop products that meet their needs. Further, there may be a role for business in educating consumers on issues and product attributes, resulting in more informed purchasing decisions.

Still, this doesn't just apply to consumers—it also applies to investors. Shareholders and lenders must decide where to invest their money. How do they choose between different companies, which requires trading off one set of corporate attributes for another? Should they invest in a power producer using cheap coal or another moving towards renewable or alternative energy? Understanding how people make tradeoffs will help businesses make sustainable choices.

4. COMPANIES DO NOT KNOW HOW BEST TO MOTIVATE EMPLOYEES TO UNDERTAKE SUSTAINABILITY INITIATIVES.

Survey research shows employees would rather work for sustainable firms—and some would even forego higher earnings to do so.[4] Firms must better leverage this knowledge to attract and retain the best employees. To do this, sustainability managers want to know which employee incentive plans are most valued, and so likely to be effective. One manager clearly identifies this need, asking: “What does the cumulative experience of business tell us about how best to incorporate sustainability performance targets into employee incentives?”

These mechanisms should allow firms to leverage their sustainability initiatives and values, building the right capacity internally and ensuring progress is made towards sustainability goals. An enduring commitment to sustainability, one that can only be achieved over a long time horizon, may separate those companies that are truly committed to leading change from those that are only keeping pace with their peers. One manager at a leading firm points out: “It’s easy to generate ideas and start initiatives at the grassroots level. But how do we sustain that momentum for fruitful innovation across the entire organization—and over the long term?” However, such commitment requires the buy-in and sustained interest of employees. In this way, good employees attract other good employees, and the firm moves towards a virtuous and enduring cycle of sustainability.

5. SUSTAINABILITY STILL DOES NOT FIT NEATLY INTO THE BUSINESS CASE.

Most sustainability managers are beyond asking if it pays to be good (or green). However, they are often called on to explain and defend sustainability activities. Current financial decision-making does not fully capture the value of sustainability-related investments. These investments are often based on long-term and intangible rewards, whereas many investments made are based on the short-term impact on the bottom line. One manager pointed out that the payback period for sustainability investments often exceeds that required to approve projects. Sustainability executives may resort to intangibles to justify corporate environmental and social investments. Initiatives are often treated therefore, as ‘off-grid’ or ‘one-offs’, rather than a recurring component in all decision-making activities. Another manager said: “We need to be able to value brand, reputation and the externalities arising from our business activities.”

Sustainability managers want to know exactly how returns on sustainability investments can be measured and seen. What are the short-term and long-term ways to assess and justify these investments? How can sustainability executives demonstrate the value of sustainability within the decision-making language and framework of finance executives? Until sustainability becomes accepted as a legitimate—and value-creating—activity, it may lose out to projects that are more easily understood and evaluated.

6. COMPANIES HAVE DIFFICULTY DISCRIMINATING BETWEEN THE MOST IMPORTANT OPPORTUNITIES AND THREATS ON THE HORIZON.

Numerous threats are looming for business—from financial crises, to climate change, to local land issues, to health pandemics. It is difficult to judge which of these risks warrants attention, and often more challenging to prioritize them. Businesses need guidance on how to evaluate the materiality of an issue, both for disclosure purposes and for strategic planning. One manager points to the complexity facing their business: “There are myriad opportunities and risks we could tackle as an organization. We need to understand where to focus our attention to advance our practices now and in the future.”

Equipped with an understanding of which risks and opportunities are most material to their organization, managers can then prioritize material issues, translate them into internal strategies, and communicate them to stakeholders.

7. ORGANIZATIONS HAVE TROUBLE COMMUNICATING THEIR GOOD DEEDS CREDIBLY, AND AVOID BEING PERCEIVED AS GREENWASHING.

Claims made by some businesses and NGOs regarding sustainability are perceived to be credible, whereas others are met with skepticism or disbelief. The different reactions are likely related to attributes of the organization making the claims—its size, its structure, its actions, or its motivations. Even leading businesses are wary of touting their successes, as such communications can invite public criticism for the things that they aren’t doing.

Companies want to know how to communicate their message credibly, so the integrity of their efforts is clear. This issue is critically important as most of the benefit of CSR activities can depend on whether stakeholders believe the message to be truthful. One manager noted: "Polls show people consider academics and NGOs more credible than corporations and government. What sincere action can organizations undertake to foster public credibility?"

8. BETTER GUIDELINES ARE NEEDED FOR ENGAGING KEY STAKEHOLDERS, SUCH AS ABORIGINAL COMMUNITIES.

Many businesses have experienced very positive interactions with aboriginal groups, resulting in benefits for both parties. Other businesses—sometimes operating in the same regions—have had negative interactions. One manager recognizes the unique viewpoint that is required to navigate such situations: "Organizations need to understand the aboriginal perspective on sustainable development—which extends the traditional view of sustainability in resource development beyond the environmental, social and economic pillars to include cultural and spiritual dimensions."

By building a more robust understanding of the aboriginal perspective on sustainability, the relationship between the business and the aboriginal community can be built on mutual respect and trust, which is more likely to lead to positive engagement. Furthermore, this understanding may inform the business community of new approaches to sustainability and stakeholder engagement, both within the aboriginal communities and outside of them.

9. THERE IS NO COMMON SET OF RULES FOR SOURCING SUSTAINABLY.

Businesses want to purchase products and services that are environmentally and socially responsible. But the process of identifying sustainable suppliers is not always straightforward, and the means for comparing products is not always obvious. Sustainable sourcing decisions may also require industry-specific knowledge and practices, or data that just may not be available.

Identifying a set of best practices for sustainable sourcing would provide organizations with targets for benchmarking as well as guidance on managing their supply chains. It would also yield an opportunity for leading businesses to showcase their good practices. One manager says: "Sustainable sourcing is key for us. How can we get people to understand what it means for our business? Are there lessons from what we've done that can help other industries?" Sustainable sourcing is not just about sustainability—it is also about managing and mitigating risks. This issue is clearly one in which the business case and societal good are aligned, and yet many businesses remain perplexed about how to manage their supply chains sustainably.

10. THOSE COMPANIES THAT TRY LEADING THE SUSTAINABILITY FRONTIER OFTEN END UP LOSING.

Leadership in any field—sustainability included—carries with it some clear rewards. For instance, leading organizations can attract new customers, and foster loyalty with employees and community stakeholders. But there are also risks associated with being on the cutting edge. For example, sustainability leaders may overinvest in technologies that never yield the expected rewards, be overtaken by a second-mover who builds on the leader's ideas to leapfrog into the lead, or lose the support of internal stakeholders with shifting corporate priorities.

One manager highlights this paradox: "Being a leader means sticking your head above the parapet: it exposes you to criticism internally and externally, but the potential rewards are great. Executives introducing new sustainability targets have to do their homework." The ability of companies to benefit from the potential upside and deflect risks will be key to ensuring that there are always businesses willing to raise the bar.

THE BUSINESS MODEL FOR THE 21ST CENTURY

In most discussions about the business case for sustainability, the emphasis has been on the bottom line. The value of sustainability has been analyzed from every direction—revenues, profits, and share prices—and it is clear that, in some circumstances, sustainability can pay off. However, sustainability is more than just about firm-level benefits. Businesses, business schools, and society recognize that the current course of production and consumption cannot be sustained within our natural resource limits.

Businesses develop the products and services consumed by individuals around the world. The vast resources extracted by business for society's use have created waste streams that find their way into our land, air and water and compromise human health. New businesses are being built on an understanding of the problems that have emerged through the 20th century. Increasingly, old businesses are evolving to use fewer resources, intensify the resources they do use, and renew and reuse the products they sell. New relationships are forming between businesses as firms realize synergies from interdependence; one firm can profit from another's waste, or several firms can benefit through flexible supply chain relationships built on common interest.

The 21st century will reveal a new paradigm in which business is no longer separate from society. Realizing the new "business-as-society" paradigm will require the efforts and ingenuity of organizations across sectors and industries. It will challenge the current generation of business leaders to apply their hard-won knowledge to novel problems, and the next generation to cut their teeth on issues of unprecedented importance and complexity. Those businesses that identified the hurdles and challenges described in this report, along with those businesses that aim to overcome them, will help to shape this new business landscape.

The concept of sustainability is undeniably compelling. Done right, both business and society benefit.

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