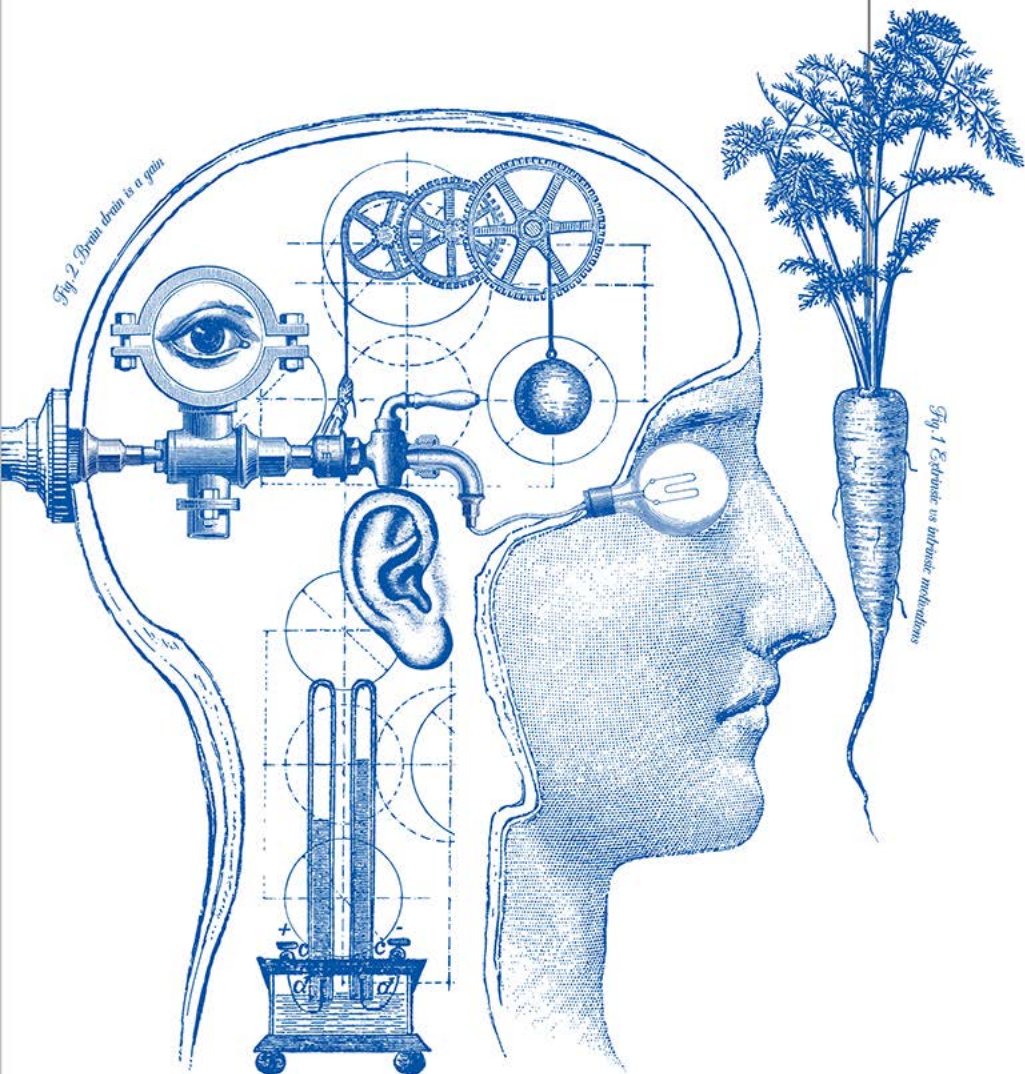


# core

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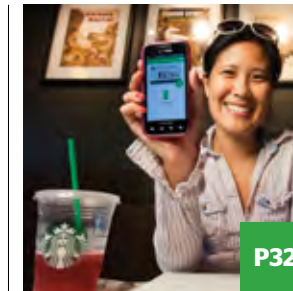
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# Introduction



"I am sure you will find plenty to read in the new issue of Core. It is packed full of articles that cover the latest research, opinion and thinking at Warwick Business School. The wide variety of subjects covered illustrates the depth and breadth of knowledge we now have at the School, with some truly world-class academics in position.

"It also illustrates how much we at WBS attempt to tackle issues affecting business and society in general. As well as looking to produce innovative, socially responsible business leaders through its teaching, WBS strives to build knowledge with world-class research.

"This magazine shows that creativity and innovation are at the heart of what we do, even the way we teach, as we strive ultimately to build a better society."

Professor Mark Taylor  
Dean of Warwick Business School.

VUCA has become a trendy acronym in management circles. Standing for volatility, uncertainty, complexity and ambiguity it has become shorthand for the post-crash world business now operates in. This third issue of Core looks at the impact of the changes in the business world now that the period of Great Stability – as economists call it – is over.

We consider why *The crash still haunts us all* and how the world has been gripped by a 'new normal' (p26) and ask *Is executive pay out of control?* (p13).

If the ripples of the crash are still being felt, why are so many investors ploughing their money into social tech firms like Twitter when they don't make any money? We look at *Why investors are all atwitter about social* (p8). The volatility is being felt more than ever in the *energy* sector and in *Russia's grip is loosening* (p54) we unravel just how Europe has reacted to the continued threat to Russia's gas supplies to the continent.

One of the concerns with the *leadership* of our companies is the lack of diversity in the boardroom. Despite government campaigns and targets being set, we find that it's proving a hard nut to crack in *Ending the old boys' club* (p35).

We also uncover what really goes on in boardroom meetings in *Let it go in the boardroom* (p21) and in *It pays to care* (p64) we suggest that making sure your staff are happy, will boost share prices.

*Behavioural Science* has also unearthed a new theory on how the social norms that govern our



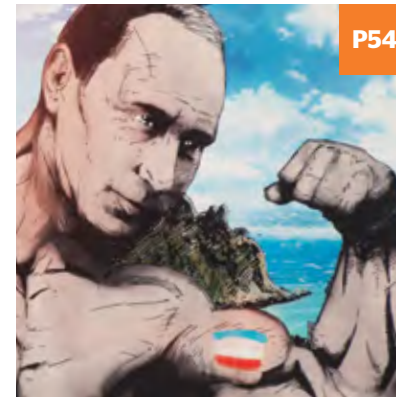
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daily lives have emerged in *Bargain hunters* (p38). We also look at how *unconscious biases* could be playing a part in how companies select their managers and executives in *If the face fits, hire it* (p10).

Among the complexity, 2015 has marked the opening of a new base for WBS at The Shard. The man behind the iconic building, Irvine Sellar, speaks about his vision and the design process that started on the back of a menu in *Sky's the limit* (p18). *Inspirational workplaces*, and how the likes of Google and Apple motivate staff plus attract top talent, is a topic we delve into further in *Brewing a motivated workforce* (p28).

Even the biggest firms have had to embrace new strategies in the post-crash world. With the emergence of SpaceX, Virgin Galactic, and with India and China investing heavily in rocket technology, there is a new space race and we look into *NASA's new space race strategy* (p23).

On the theme of *technology* we look at how squabbling egos managed to delay the arrival of *mobile payments* in the West for 15 years in *How to ruin a good idea*



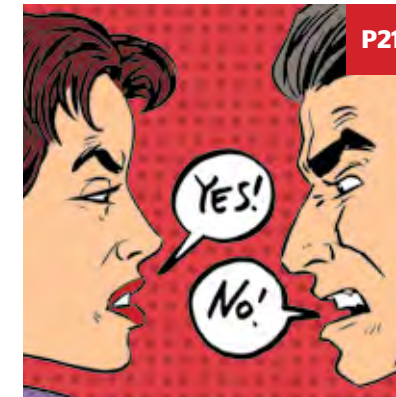
P54

(p32). One of the, if not the most, vital pieces of technology in the world is overseen by SWIFT. We uncover just why this unheard of, but vital, society is so secretive and has armed guards surrounding its giant *data warehouses* (*The society the world depends on*, p41).

Dr Christian Stadler reveals his favourite reads in *Five books I love* (p52), learn how to lead wisely with Hari Tsoukas (*How to lead wisely*, p62) and find out about the benefits of 'open space' learning in *Why failing never felt so good* (p59). You can also discover the delights of Rio de Janeiro in our *City guide* (p50).

For career inspiration check out what has driven David Smith's career to the top in *At the wheel of an iconic name* (p43) and read how David Winstanley keeps Birmingham Airport ticking over in *A day in the life* (p48).

In *Brain drain is a gain* we unearth the secret behind India's ever-expanding conglomerates (p56) and discover that their success has a lot to do with Western education. We look at *Five reasons why the MBA is still worth it* (p47) and if you're thinking of starting your



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own business, Deniz Ucbasaran identifies the *Seven characteristics of the entrepreneurial mindset* (p66), something that could certainly help in a VUCA world.

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ANALYSIS



Social tech firms are the hot stock for investors these days, yet a look at their balance sheet would put most people off. Sarah Henson talks to **Sotirios Paroutis** to find out why Twitter and the like are so popular even when they don't make any money

# Why investors are all atwitter about social

Traditionally, investors would pore over financial statements looking at revenue and forecasted profits before they would consider backing a start-up. Investing in a company that was yet to make any money and without any indication of how it planned to monetize itself in the future, would be seen as a huge risk.

The dot-com bubble between 1997 and 2000 taught investors harsh lessons about overlooking traditional financial metrics and putting their trust in the potential of the internet. But over the last few years we have seen sky high valuations of social tech giants such as Twitter, Instagram and Snapchat, companies who in many cases are yet to turn a profit.

Illustration: Rebecca Curtis

Investors have been queuing up to get a piece of the social media pie. So what exactly is it that gives this new phase of tech companies the power to woo investors without being able to show them an expected return?

Sotirios Paroutis, Associate Professor of Strategic Management and Assistant Dean at Warwick Business School, says in a digital age investors are willing to part with their cash based on their confidence in tech firms' future potential. "It's the Facebook effect," he says. "The expectation is that some of these endeavours will make money, as Facebook did - eventually."

It was of course Facebook, the big daddy of the social tech world, which started the trend for huge valuations and provided investors with a taste of how these firms could expect to grow. Facebook was already valued at up to \$5 billion in 2008, according to Businessweek, before it announced it was 'cash flow positive' reaching 300 million users in 2009. It is now used by a sixth of the world's population and reached a peak market capitalization of \$104 billion after it held its initial public offering (IPO) in February 2012.

The majority of its revenue now comes from advertising, particularly from mobile, which is the fastest growing area for the company.

"Investors have seen Facebook grow its user base exponentially to reach a point where it can use its commanding position to flex its advertising and pricing muscles, and so to start generating revenues. It has changed the way investors think about the success of a firm," says Paroutis.

"In the case of Twitter and other tech start-ups, investors are more open-minded to allow a bit more time for revenues to materialise. They are not looking only at revenues when making a decision in this industry space - it is more about the growth opportunities and the innovation behind the endeavour that is in the spotlight."

And this was proven when Twitter launched its IPO in 2013 with a value of over \$14 billion, despite having never made a profit. Investors had learned from the Facebook IPO, says Paroutis and were willing to invest in the power of Twitter's user base rather than the figures on the balance sheet.

## Staying useful for users

But a flexible business model is also key in this industry space. To succeed in the social media sphere you need to attract users, engage them and keep them or you will be drowned out of the market like Myspace, one of the original social networking sites, that lost 10 million users between January and February 2011, and saw its unique user number fall from 95 million to 63 million during the previous 12 months.

Paroutis explains: "We tend to see social tech start-ups go through three phases. First, they offer the service for free to grow their user base. If users see value in it, you see a rapid growth.

"The second phase is a slight tweaking of their business

model to generate more revenue, often by allowing advertisers to interact with the user base - this is when Twitter brought in promoted tweets. The third phase is a further refinement of the business model, leading users to actively seek engagement with companies without the need for advertising.

"The service becomes so smooth that users utilise it to get products and connect with firms - for example, when seeking discount coupons. Throughout the process the key idea is not to lose your user base and to keep users active.

"In the case of Twitter there are three key revenue streams: advertising, utilising their database for interested parties, and providing advertisers insight into new international markets by expanding their service in those countries.

"At some point, like Facebook, Twitter will reach a stage where they will have a commanding position in terms of their user base. That will allow them to re-negotiate contracts with advertisers and keep investing in refreshing their service to be one step ahead of competing platforms, to place them in an even more dominant position.

"But the key factor is having a growing user base. As long as there is confidence that the business model is still innovative enough to keep users interested, investors will give social tech firms the time to find those revenue streams."

## The growth of Snapchat

Another way these companies will start to make money is to sell consumer behaviour data. If these sites know where we live, where we shop, who our friends are, how we are feeling and what we are doing elsewhere on the web, not only can they command high fees for advertising and promotions on their sites but they can also sell the data to marketers.

Photo messaging service Snapchat, which was developed by Stanford University students, was valued at \$10 billion in August 2014 after becoming the hottest new app among teenagers. The success of the firm is largely due to the power of its audience.

"Snapchat, the most popular app with teenagers, has the future customers of corporates at their fingertips," says Paroutis. "The insights and data that this provides can give early indications of consumer and market trends, and allow corporates to find the right products to sell at the right time, to these teenagers, especially as they get older and have more disposable income."

So can these tech firms satisfy investors and will they be around 15, even 10 years from now? Paroutis believes they can't be complacent; they must keep refreshing themselves if they want to find more users and keep them engaged.

"Advertisers need to see you are still a relevant platform," he says. "If a firm can't sustain their follower growth and keep up with competing innovations, marketers will simply move their budget to other emerging platforms that can target their audience in a more effective way." ■

# If the face fits, hire it

**Martin Boonham** discovers that a new study which finds we are incredibly good at predicting what profession people work in, could have revealed the subconscious biases that are stifling diversity



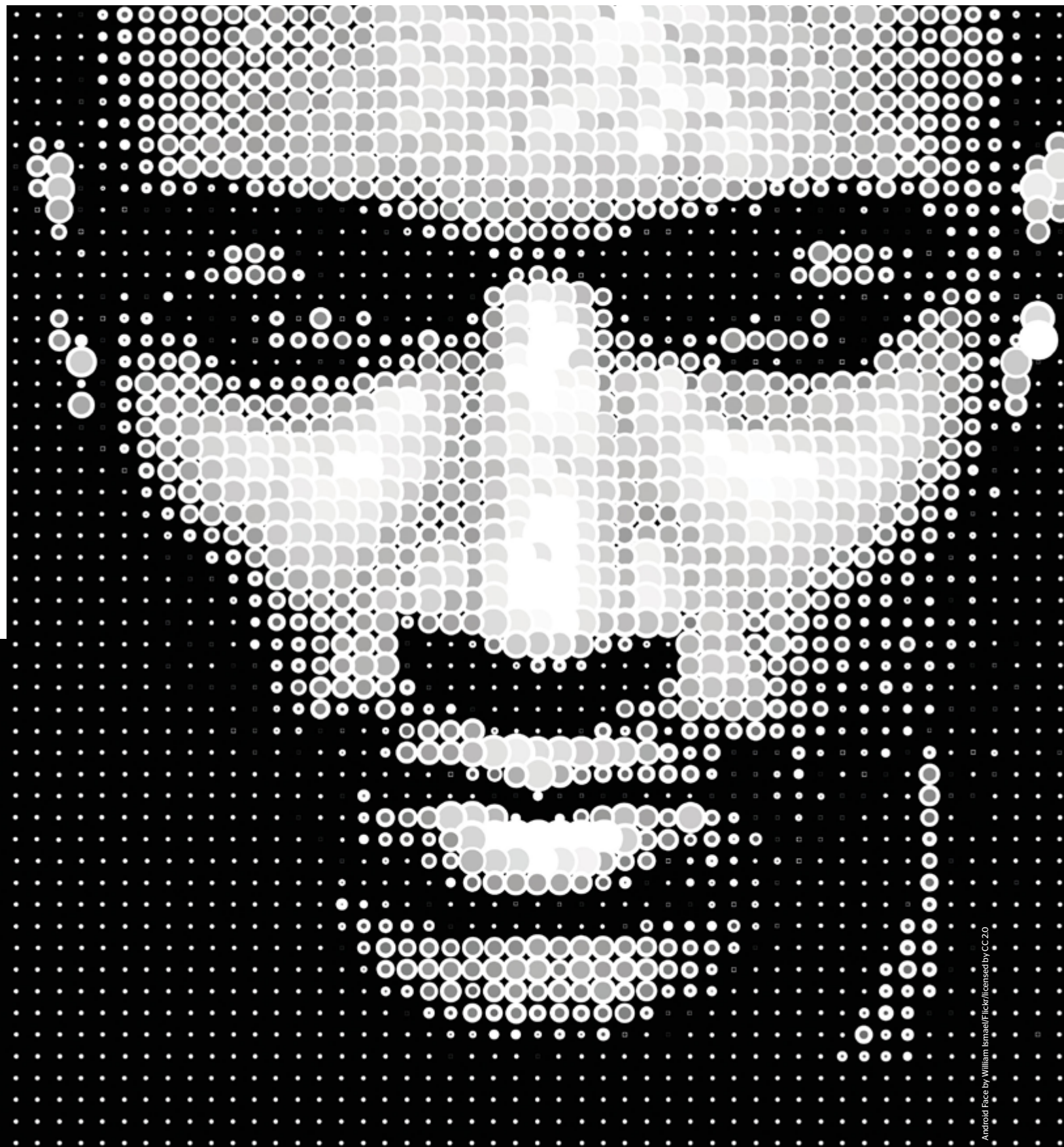
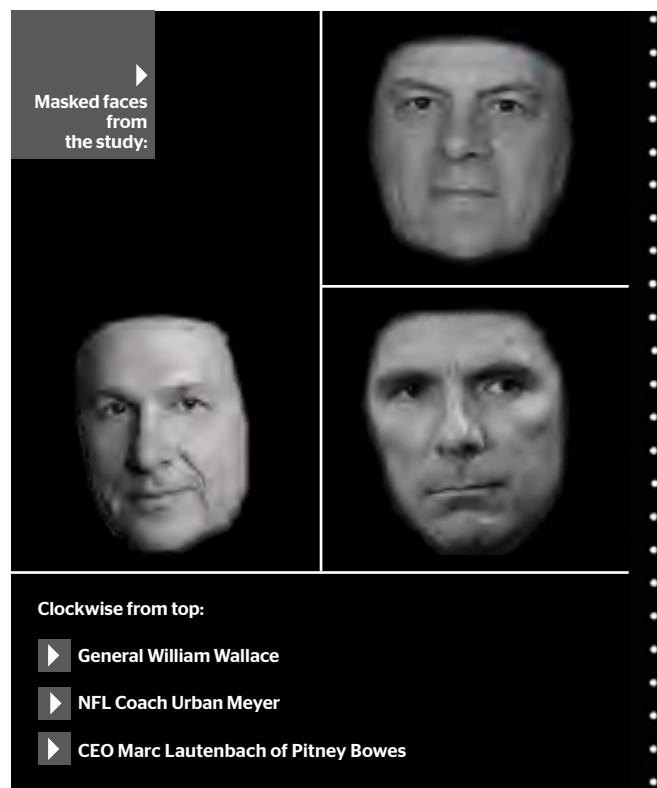
Many people have a knack when it comes to identifying a face in the crowd, but how about when greeted with just two façades a matter of inches away on a computer and tasked with identifying which belonged to a certain profession?

From that line of thought, what then stands out about a person's facial features to be pigeon-holed as say, a business leader? This was the idea behind a research project by Dawn Eubanks, Associate Professor of Behavioural Science and Entrepreneurship & Innovation at Warwick Business School.

As it turns out, and despite pessimism from participants to the contrary, people were able to assign accurately, above and beyond chance, a host of specific faces to the right industry, throwing the old adage of never judging a book by its cover well and truly out of the window.

Eubanks and her colleagues used the faces of American business leaders, politicians, sports bosses and military chiefs, to test whether people in the UK could infer which leadership domain they were from, simply by their face. Eubanks notes how, initially, the idea was to see if people could spot leaders from non-leaders, but the research for that would have required an immense amount of images of regular people in non-leadership positions, instead a more specific set of fields were needed.

“We wanted to go beyond what a leader looks like and build on it to try to understand what a leader looks like





in a particular domain, such as a politician, or a military or business leader,” says Eubanks.

To ensure the faces were as neutral as possible, hair and attire were removed to ensure there were no indicators of the person in question’s profession. No well-preened bouffants, buzz cuts or even smiling faces were allowed, to ensure participants had just the face itself to judge. All pictures were also black and white.

“We didn’t want people coming in with preconceived ideas of what a CEO’s hair might look like, or a sun tan or other such cues people may rely on,” says Eubanks.

“We found sports, military and business leaders were identified above chance, but politicians weren’t so easy to identify. We think this is because people in sport, the military and business rise up the ranks and do so by being selected by their own.

“So, if you’re a CEO for example, you’re selected by other business people, by people close to you and maybe even similar in appearance. Similarly, this might occur for military and sports leaders, but in politics you’re selected by the general public. What’s more, even among different political parties there might be the ‘right’ look, so Republican or Democrat representatives in our study may be very different in appearance.”

This judgement based on stereotypes means a bias potentially exists in the selection process of these leaders. Eubanks has a warning for those involved in the selection process.

She says: “I think our research highlights just how important it is to have rigorous selection systems in place. We, as individuals, seem genuinely unaware of these biases we hold as to what certain leaders should look like, so we need systems in place to guard against that. The fact people downplayed their expectations to below chance, but then actually identified leaders’ faces above chance is testament to that.

“It is really difficult to overcome these biases as we don’t know why we’re doing it, but we do need to have

something in mind to clear these pre-determined stereotypes. Despite people not being able to predict it, it is something that is happening at a subconscious level.

“Companies and organisations need to be aware that by sticking to these stereotypes - even at a subconscious level - there is a chance they will be missing out on really good candidates.”

It’s not all doom and gloom if you don’t have the right

look, however, as Eubanks says defining what makes a face look competent or warm is just too hard to do. It seems there aren’t certain features that make somebody look masculine - something you might think a military leader would have - it seems to be a general look that allows the faces to be correctly pigeon-holed.

“Once we looked at the first study we then decided a second study was needed as we kept thinking so what are they relying on, what are they using to allow them to say this is a sports leader or this is a business leader,” says Eubanks.

The second study looked at attributes such as warmth, masculinity, likeability and trustworthiness and used the 10 most difficult to identify faces from the first study, alongside the 10 easiest. A different set of 929 participants were used for the second study.

“We did not give the participants any definitions,” says Eubanks. “For example, with competence you cannot pinpoint it to the exact nature of someone’s face to be able to do this, just that they looked more competent. Therefore it is impossible to draw attention to certain facial features and suggest they are the right look for a leader.”

In terms of performance the jury is certainly still out on these leaders with the right face. As part of her research, Eubanks briefly examined the success of certain leaders involved in the study.

She compared the vote shares obtained by US Governors who were correctly identified by participants with those who were less likely to be categorised as politicians.

Among Republican gubernatorial election winners, Eubanks found there was no relationship between looking like a politician and vote shares obtained. In contrast, Democrat gubernatorial election winners who were more likely to be identified as politicians won by a smaller margin of vote shares. Thus, looking like a politician does not seem to benefit political leaders.

A similar analysis with Fortune 500 CEOs produced mixed results.

The likelihood of being correctly identified as a business leader did not significantly predict their one-year or five-year earnings, but it did predict the profit-to-revenue ratio of their companies in 2012, so the more the face was identified as a business leader the higher the profit-to-revenue ratio was.

More research is needed on this, but the early signs for those doing the hiring are: if the face fits, think again. ■



“... our research highlights just how important it is to have rigorous selection systems in place. We, as individuals, seem genuinely unaware of these biases we hold as to what certain leaders should look like”



Steve Coomber investigates the endless rise of executive pay and bankers’ bonuses. Can anything be done about them as concerns about growing inequality increase?

# Is executive pay out of control?

When executive pay makes the headlines, which it often does, it is usually for all the wrong reasons. Shareholders complain about excessive CEO pay; there is outrage about the bonus culture in banking; commentators point to rising pay inequality between senior executives and the rest of the workforce; CEOs jump from poorly performing

corporations aided by substantial golden parachutes. However, regardless of popular sentiment, getting to the truth about executive pay means taking a closer look at the evidence.

Academics at Warwick Business School have conducted research into numerous issues relating to executive pay. Their findings, and the views of industry

experts who deal with executive pay on a daily basis, suggest that the topic is far more complex and nuanced, than the stark polarised terms it is often presented in.

Recent stories in the media have highlighted some of the problems with executive pay. In November 2014, for example, energy company BG Group announced plans to award its new CEO, Helge Lund, a pay package that included a golden hello of £12 million in shares, plus the opportunity to earn up to £14 million a year if performance targets were met, with a £1.5 million base salary, plus a short-term bonus of 100 to 200 per cent of base, and annual payments under a long-term incentive plan with a face value of six times his salary.

Simon Walker, Director General at the Institute of Directors, called the proposed deal “excessive, inflammatory and contrary to the principles of good corporate governance”. Shareholders were not impressed either, voicing concerns about a proposed package that fell outside BG Group’s three-year pay policy which had only just been approved by them that summer. There were doubts expressed about whether the performance targets were challenging enough, and threats of a shareholder revolt.

BG Group subsequently scaled down the initial share grant element. Vesting of bonus shares was deferred until 2018 and Lund agreed to hold his shares while CEO. The changes avoided the need for a shareholder vote on the pay package.

## Having a say on pay

The BG Group saga highlights the sensitivity around executive pay. Following the financial crisis in 2008 and its aftermath, there was a clear sense that senior executive pay in the financial sector, and banking in particular, had got out of hand. Amounts were excessive, the link between pay and performance tenuous, and the composition of remuneration packages - partly through a focus on short-term performance - saw the incentivising of morally questionable practices in delivering performance.

In the fallout from the financial crisis, countries began introducing measures to address some of the problems around executive pay. Notably, the desire to link executive pay to long-term performance, to restrain pay increases for senior executives relative to the rest of the workforce, and to increase transparency over pay arrangements, providing shareholders with more power to intervene when necessary.

In the UK, for example, new rules - say-on-pay for shareholders - were introduced governing the information

that UK main market companies, some 900, must provide on executive pay.

## Will regulations work?

UK quoted companies are now required to produce a forward-looking report setting out their remuneration policy. This includes how directors are to be paid, including every element of remuneration they are entitled to, as well as how the pay policy supports the company’s long-term strategy and performance. Shareholders get a binding vote on this at least once every three years. Pay must fit within the approved guidelines or go to a shareholder vote. There must also be an annual implementation report detailing how approved pay policy was implemented. Shareholders have an advisory vote on this. The European Union (EU) is planning to introduce similar measures, with slight differences in the shareholder vote provisions.

But are these measures really necessary? One perceived problem is that executive pay has risen too steeply, both in absolute terms, and relative to the salaries of the broader workforce. There is some justification for this perspective.

Take the situation in the US, where CEO pay appears to have accelerated the most. The GMI Ratings’ 2013 CEO Pay Survey, covering 2,259 CEOs from 2011 to 2012 showed that for 379 S&P 500 CEOs, while median base salary increase was two per cent, total realised compensation increased by 19.65 per cent. All 10 of the top 10 highest paid CEOs in the survey earned more than \$100 million, and two, more than \$1 billion.

At the beginning of the 1980s CEOs of the biggest US companies were paid some 45 times the average worker’s salary. By the mid-2000s CEO pay was a staggering 263 times the average worker’s pay. In the UK, average CEO pay at FTSE 100 firms is 130 times that of the average worker

according to High Pay Centre data. That is up from 47 times the average worker’s pay in 1998.

One explanation for the rise is that, increasingly, firms are sourcing executives in a global talent market.

“My view, from talking to people and my research, is that there really is a global talent market that determines the level of pay,” says John Thanassoulis, Professor of Financial Economics at WBS. “And the market has become more mobile. At the very top, certainly, people are more able to move, whether it is to the United States, to Asia, or to Europe. When people are ready and willing to move around it opens up opportunities for bargaining,



“In the UK, average CEO pay at FTSE 100 firms is 130 times that of the average worker according to High Pay Centre data”

It has made it possible for these executives to attract higher pay.”

## Global market for talent

It is a situation confirmed by Dona Roche-Tarry, from her perspective as Managing Partner of European Board Services at leading executive search firm CTPartners. “If we’re in a global economy, competing globally, our perspective has to look beyond the UK. You’re attracting candidates from all over the world, and while we have a spectrum of what’s acceptable in the UK, if you widen it to a global talent pool then boundaries have to shift - that causes pressure from the rising tide of compensation.”

Some question the existence of the much cited global market for talent, however. High Pay Centre research from 2012 looked at CEO hiring by Fortune Global 500 companies. Of 153 western European companies, only 15 CEOs were hired from abroad. None of the CEOs of US companies were hired from abroad. Some 80 per cent of hires were internal.

Yet, as Thanassoulis also notes, there only needs to be a single well-remunerated alternative option for a CEO in order to assert the existence of an external market. CEOs may not always want to uproot their families and traverse the globe; the point is that they can if they want to. The former CEOs of both BP and Barclays have taken this option, demonstrating the existence of the international market for CEO labour.

## Compensation consultants

Another possible factor in the seemingly inexorable rise of executive pay is the role of the board and other intermediaries, such as compensation consultants. When a large company hires a new senior executive a broad range of interested parties are usually involved. This includes the hiring firm’s remuneration committee at board level, plus compensation consultants retained by the committee. Executive search consultants are often involved, as are employment lawyers; and then there are the candidates and their representatives, including talent agents, who seek out prospective employers and negotiate pay packages, not forgetting shareholders and their intermediaries.

Take the impact of compensation consultants. Most large companies will use compensation consultants to outline the pay guidelines within the industry and indicate what is competitive. These consultants can provide remuneration benchmarks, for example.

“There’s an economic rationality to the process,” says Richard Belfield, Executive Compensation Practice Leader in the UK at professional services firm, Towers Watson. “Benchmarking is more likely to be used with senior executives and CEOs because their costs to the

company are significantly higher and so, therefore, is the risk of overpayment given that person’s contribution to performance. The remuneration committee look to the market as a point of reference around setting pay policy and pay opportunities. They will want to ask: do we have a competitive package in terms of base pay, our target bonus opportunities, the expected value of long-term incentives rewards, benefits, pension and so on?”

Belfield is quick to add that this is not the only point of reference. Others include the internal pay structure, pay strategy and philosophy. Equally you look at the individual in relation to the role. Are they new and relatively inexperienced and untested in the role? Or are they someone who has been in a role of this kind for two decades and therefore someone who might command pay higher up, relative to the market?

There is some debate about the impact of pay consultants on the level of pay. Evidence is mixed. Some research points to a link between higher levels of CEO pay and use of compensation consultants. Others dispute this.

“Our research shows that pay consultants have a negative impact on salary-based compensation, and a positive impact on equity-based long-term pay, long-term bonuses specifically and also short-term bonuses”

“The use of pay consultants is widespread, with 82 per cent of FTSE 100 companies, and 75 per cent of FTSE 250 companies using them,” says Georgios Voulgaris, Assistant Professor of Accounting at WBS. “Sometimes the perception is that senior executives and CEOs hire compensation consultants to help them justify their pay, but the findings show something slightly different. Our research shows that pay consultants have a negative impact on salary-based compensation, and a positive impact on equity-based long-term pay, long-term bonuses specifically

and also short-term bonuses.”

This is good news, argues Voulgaris, as it provides a greater incentive for managers to take decisions in the long-term interests of the firm and its shareholders.

While significant and increasing pay disparity between senior executives and the rest of the workforce may seem socially undesirable, it is when it impacts on firm performance that it presents a problem for the company’s stakeholders.

## High pay is bad for business

High Pay Centre studies suggest that the workplaces with the greatest pay disparity between high and low earners have more workdays lost to sickness and industrial disputes, and higher staff turnover. There can be other more subtle effects too, notes Onur Tosun, Assistant Professor of Finance at WBS. For example, it may create a moral hazard for the CEO.

“Where projects promise returns that are relatively insignificant in terms of the personal gain of the CEO, yet still positive in terms of the firm, the CEO may decide





to pass on those projects. Equally where they do invest in projects they may choose short-term projects, instead of investing in R&D or in long-term projects,” says Tosun. “So when, after five or 10 years the CEO quits the firm, having accumulated a huge amount of wealth, not only has the firm lost its CEO and has to find another, but it doesn’t have any long-term projects.”

Ideally, pay for senior executives should relate both to their past contribution to the firm’s performance and future contribution to its long-term performance. This would mean a sensible starting point for pay coupled with pay incentives appropriate for executives, organisations and shareholders. Achieving this objective is not easy, though. For example, there is research that suggests median pay increases from performance linked elements such as Long-Term Incentive Plans (LTIPs), for example, are significantly greater than increases in earnings per share, or increases in market value.

### Linking pay to performance

“Linking pay to performance for a large organisation is not straightforward,” says Belfield. “Valuing talent is not necessarily an easy thing to do and particularly difficult if there are effectively more than two parties to the negotiation - the shareholders have very strong views about these things and will have a say in it. Remuneration committees and boards in general are acutely conscious of the impact of having the right or the wrong leadership in place.”

“One trend over the last few years since the banking crisis has been to create LTIPs, a deferred bonus structure that will lock executives in and keep them more accountable against company performance,” says Roche-

Tarry. “So it is more long-term thinking. There has been a lot of work around LTIPs, right across industry, not just in banking, and it has become a big part of executive compensation when it wasn’t always.”

While LTIPs may have been around for some time, says Roche-Tarry, their focus and structure has changed with the emphasis now tying personal performance to company performance, and extending the time period towards five years.

But if policymakers want to encourage pay design that curbs excessive pay packages and ties pay to performance, it is important that any proposed measures are well thought through in order to avoid unintended consequences. Unfortunately, this is not always the case.

Consider EU measures to cap senior bankers’ bonuses in Europe at 100 per cent of their fixed salary, or 200 per cent if approved by shareholders. This measure has been criticised as limiting the flexibility to rein back the variable element of the pay package should the business environment warrant it. To circumvent the restrictions banks will increase the fixed element of pay, which cannot be clawed back in the event of poor performance, critics say.

Indeed, some European banks have sidestepped the cap by introducing role-based pay or allowances in conjunction with fixed pay and bonuses. The banks have argued these payments do not classify as bonuses because they are not tied to performance. The European Banking Authority (EBA), the leading banking regulator in Europe, has taken a different perspective. It considers the payments as variable components of pay, as with bonuses.

Thanassoulis suggests an alternative approach. “One way that could improve financial stability would be to have a cap on the total amount that could be paid out,

or the total amount of bonuses that could be paid out, in proportion to risk-weighted assets, either would work,” he says.

“A cap on the total bonus pool would stop banks, the weak ones in particular, aggressively bidding against each other to hire bankers and so overstretching their balance sheet. One could keep the idea of a bonus cap, which is important to European policy makers, but interpret it at the aggregate rather than individual banker level. This would give the banks a greater degree of flexibility and so they would not need to increase base pay as they are already doing to circumvent the rules. Bankers could still be remunerated with incentive creating bonus pay; but the aggregate cap would deter weaker banks from being too aggressive and overstretching. This would lower the whole level of pay in the sector and so would improve financial stability.”

### The rise of options

Another example of the complex interaction of pay design and firm performance is revealed in Tosun’s work on the relationship between options as part of the CEO pay package and the willingness of the firm to leverage.

In the US in the early 1990s the corporate tax code was amended to include Section 162(m). This section ruled that executive pay in excess of \$1 million was no longer tax deductible, unless it was performance-based compensation using the format specified by the relevant treasury regulations.

However, firms circumvented the intended salary cap by paying less than \$1 million as the base salary and the balance in performance-based bonuses or options. Options were preferred as there was no requirement to reveal the details of the options arrangements. The result was a huge increase in the use of options as part of the CEOs pay package, allowing Tosun to use data from before and after the introduction of Section 162(m) to assess the impact on leverage.

Having options motivates the CEO to behave in ways that increase the share price. So the CEO borrows to invest in risky projects that produce bigger rewards and increase the share price. Say debt holders receive a low fixed rate of return, says Tosun, and the risky project provides substantially high future cash flows. Then shareholders, including the CEO via stock options, get the fat portion of that cash flow whereas debt holders have to settle with the low fixed return.

But when debt holders are aware that the CEO’s pay mix includes the options component, they are unlikely

to be so accommodating.

“Then the debt holders would say, ‘they’re using our money to invest in this risky investment, but while we get a low rate of return, the majority of the high cash flow generated by this risky investment is going to the CEO and the shareholders’. When that happens, debt holders either ask for much higher interest rates, and the cost of debt increases, or they don’t provide any investment.”

Tosun looked at the situation before and after introducing Section 162(m). The data confirmed his hypothesis. When CEOs were paid with more options it became increasingly difficult for the CEO to issue debt and leverage decreased in those firms.

Deleveraging may signal that the firm is unwilling to take on additional risk, which is likely to deter risk-taker investors. At the same time that the firm is forced to pay more to issue debt, or is unable to issue debt at all, it is likely to find raising capital difficult.

“Basically, the firm is trapped. They cannot generate any funding, and that may create a snowball effect leading to the default of the firm in the extreme case,” says Tosun. “Next time policymakers are trying to put a cap on CEO compensation they should think a few steps further forward. What are the possible implications of whatever actions they are planning? It might help them to look at the academic literature in order to make a more informed decision.”

With executive pay, as with many aspects of corporate life, there are few guarantees. Even when it seems as if everything has been covered, things can go wrong. “Obviously you can hire someone and pay them a lot of money and then they can fail to perform,” says Thanassoulis. “Sometimes performance is not as good as it should be or needs to be.

Firms find themselves on the hook for contracts that they wish they had never struck. That doesn’t mean the hiring process was flawed, necessarily. It’s difficult to run a company. Sometimes you can do your best and it still isn’t good enough.”

Ultimately, policymakers, shareholder interest groups, and other bodies, will continue to try to rein in executive pay growth, and tie senior executives to remuneration packages that relate their contribution to the business over the mid-to-long-term to reward levels. At the same time many senior executives and their representatives will continue to press for the best deal possible. What else would you expect in a free market?

And, no doubt, senior executive pay will continue to make the headlines, usually for all the wrong reasons. ■



“One could keep the idea of a bonus cap... but interpret it at the aggregate rather than individual banker level... This would lower the whole level of pay in the sector and so would improve financial stability”





Studying at WBS: our view from The Shard

ANALYSIS



Ashley Potter talks to **Irvine Sellar**, property developer, inspiration and driving force behind The Shard, home to Warwick Business School's new London base

# Sky's the limit

As I walk into the room, light and the City pours in through the huge glass windows that lean into the 17th floor of The Shard.

It is a breathtaking view as the world's financial capital opens out before me, with Tower Bridge, the Gherkin, the Cheesegrater and St Paul's Cathedral dotted around the landscape and the River Thames winding away in front of me. All are synonymous with London, and The Shard not only presents a spectacular panoramic view of this huge and historic city, but now stands among it as one of the city's most iconic buildings.

Looking down through the non-stop glass surrounding the room is a dizzying and thrilling experience - not many schools have a view like this. But any students struggling for inspiration at Warwick Business School's new base at

The Shard only have to look out of the vast windows.

"When we were looking for a base in London, we wanted somewhere that would encapsulate our ambition to provide the best business education in Europe and The Shard was the obvious choice," says Warwick Business School Dean, Mark Taylor.

Designed by Italian architect Renzo Piano and opened to the public in February 2013 the concept for a city in the sky was dreamed up by developer Irvine Sellar, who had to battle through a financial crash, accusations of missing commercial targets, planning wrangles, a public inquiry, controversy and more to get the giant glass wigwam built.

Famously designed by Piano on the back of a menu in a Berlin restaurant after telling Sellar he hated "tall buildings", the sheer scale and splendour of The Shard has quickly won

Londoners and tourists over, with The View from The Shard, situated on levels 69 and 72, racking up one million visitors by February 2014.

But Sellar didn't want to simply build a very tall building - and at 309 metres it is very tall, the tallest in the European Union - he wanted to create a vibrant community, interacting between floors, each other and the wider area.

"The idea was to provide multiple areas within which the public could experience the building and its magnificent views," says Sellar.

"I'm immensely proud that throughout the challenges, we remained true to the original vision of The Shard being a 'vertical town' with multiple occupiers. Where we planned for six use classes, there will now be eight, some of which will operate 24 hours a day - hotel, education, medical, tourist attraction, residential, retail, restaurant and offices."

Indeed The Shard is the crown atop a huge development designed to breathe new life into a once moribund area of south east London, with £2 billion creating a new district in the capital. Known as London Bridge Quarter it includes the redevelopment of London Bridge Station, which, when it is finished, will have the biggest concourse in the UK, accommodating up to 75 million passengers a year.

Known in urban planning and architectural circles as 'Vancouverism', the mixing of work, leisure and living in a single place - in the case of The Shard on top of each other - aims to revitalise the area, with businesses and jobs being sucked into it. As the name suggests, Vancouverism was started in Vancouver and the Canadian city is frequently cited as one of the most liveable cities in the world, with its waterside

developments fostering an entrepreneurial spirit, something The Shard, overlooking the Thames, looks to replicate.

"The Shard is a live building, full of energy," says Sellar. "It sits proudly next to its sister building, The Place, now headquarters to NewsUK. These two buildings will employ 12,500 people and are establishing a new vibrant community."

Sellar, who once owned 90 clothes stores across the country known as Mates by Irvine Sellar, before moving

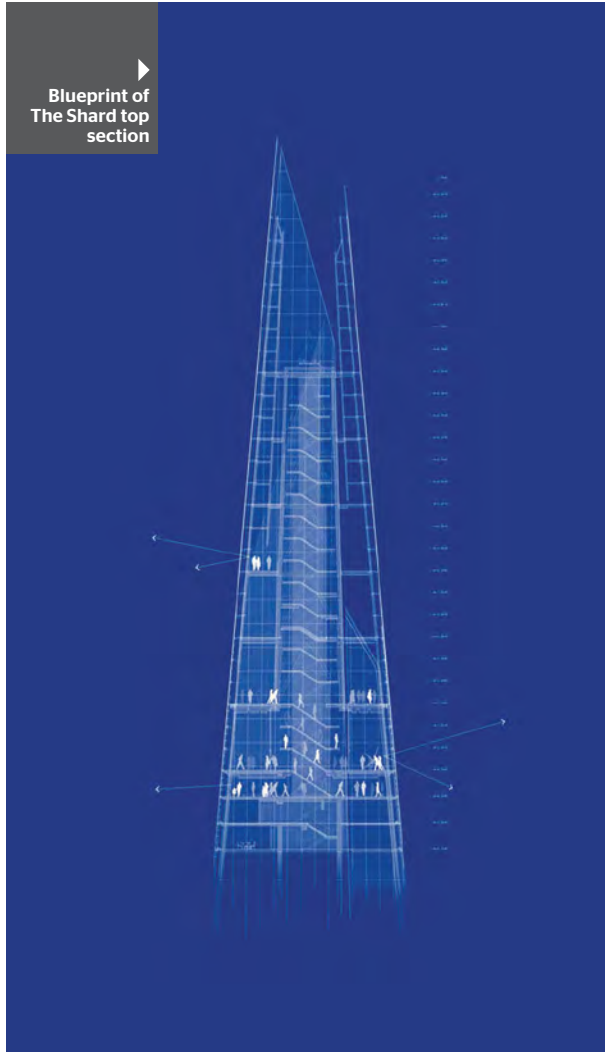
into the property business in the 1990s, has envisioned The Shard becoming a part of a visit to London "like going to the top of the Empire State Building in New York is".

Tony Chambers, Editor-in-Chief of design magazine *Wallpaper*, declared The Shard as the "perfect example of the vision of a great architect".

“Renzo turned over his menu and started to sketch. What he drew in a matter of seconds bears a remarkable resemblance to The Shard today”

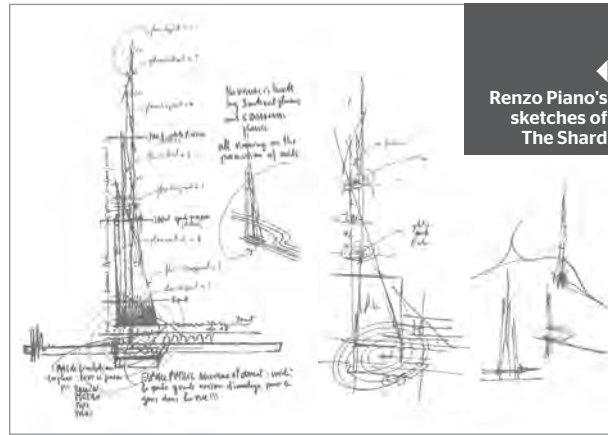
Images courtesy of The Shard | WBS London/Quintin Lake Photography





## The Shard facts

- ◆ The Shard is 309.6 metres, or 1,016 feet, high
- ◆ It is 95 storeys tall, with level 72 the highest habitable floor
- ◆ The building is served by 44 lifts, some of which are double-decker
- ◆ Its exterior is covered by 11,000 glass panels - equivalent to eight football pitches or two and a half Trafalgar Squares
- ◆ It has 200 miles of wiring, which would stretch from London to Paris
- ◆ At the busiest point during its construction, 1,450 workers from 60 countries were helping to build The Shard
- ◆ Lifts in The Shard travel at speeds of up to six metres a second
- ◆ A fox was found on the 72nd floor towards the end of construction. The fox, which was nicknamed Romeo by staff, is believed to have survived on food left by construction workers
- ◆ The Shard is jointly owned by The State of Qatar and Sellar Property Group.



Renzo Piano's sketches of The Shard

"It puts a flag down for London," says Chambers. "When you fly over it in a plane coming in to London City Airport, like I have done, you feel like you can almost touch it. It's a beautiful and exciting part of London, there is an energy here."

Building a landmark and not just a very tall office block was always Sellar's goal. "The vertical growth of London has been a much debated topic, and whilst there is divided opinion on London's evolving skyline, one thing there is universal consensus on is the importance of quality architecture in our cities," says Sellar.

"In 1998 I acquired the land and worked up some designs with local architects for a tall tower so that I could sound people out. What I really needed was a brilliant building of the highest quality that would capture people's imaginations. I arranged lunch with Renzo to see what he thought. We met in Berlin and I showed him my designs. He said, 'You know, I hate tall buildings - they are arrogant, aggressive, like fortresses.'

"I thought it was going to be a short lunch. But there was something about the energy of the Thames that appealed to him. So Renzo turned over his menu and started to sketch. What he drew in a matter of seconds bears a remarkable resemblance to The Shard today. When I saw it, I told him

that if he would sign there and then I'd build it.

"He wrote: 'To Irvine from Renzo' and that was it." Well, almost it. "The years that followed were tough," admits Sellar. "A long and challenging planning process, a high profile public enquiry, and a global economic crash that saw my initial business partners exit, at the same time as a refinancing package from a Swiss bank fell through.

"I had some dark nights. Then I got talking to representatives of the State of Qatar, and after complex negotiations The Shard's future was finally assured, with a partner that saw the potential to create a new landmark for London, and simultaneously be the catalyst to revitalise one of the capital's most historic districts."

Those dark nights have turned into a building that radiates light across not only London Bridge but the whole of London. ■

Visit [wbs.ac.uk/go/london](http://wbs.ac.uk/go/london) for more information about Warwick Business School at The Shard.



Take a virtual tour of WBS London at The Shard at [wbs.ac.uk/go/shardtourtour](http://wbs.ac.uk/go/shardtourtour)



New research has found company strategy involves just as much emotion as it does hard facts and cold calculating. [Ian Wylie](#) finds out more

# Let it go in the boardroom

Images courtesy of The Shard | ©iStock.com/Valery Kachayev

Emotions don't have a place in the workplace, we're often reminded. We should check those emotions at the door, particularly if we're going through the door to the boardroom where critical, strategic decisions are about to be made.

The assumption is that emotions cloud judgment, and impair our ability to make rational, objective decisions.

But 20 years ago, Portuguese neuroscientist Antonio Damasio made an unexpected discovery that suggests we should neither ignore or deny our emotions, but recognise

and manage them during the decision-making process.

While studying people with damage in the part of the brain where emotions are generated, Damasio found that they had something else in common: they couldn't make decisions. They could describe what they should be doing in logical terms, yet they found it very difficult to make even simple decisions, such as what to eat.

Damasio's discovery suggests that at the point of decision, emotions are actually significant in enabling us to make a choice. Even with what we believe are logical decisions,



the very point of choice is arguably always based on emotion.

The role of emotions in strategic decision-making fascinates Feng Liu, Assistant Professor of Strategy at Warwick Business School who, alongside Sally Maitlis, now a Professor of Organisational Behaviour and Leadership at Saïd Business School, has published research on the emotions they observed within the senior management team of a Canadian software company.

"Organisational strategies are made by real people and strategy is not something that is static, but created and shaped over time by human beings," says Liu. "I want to understand how the interactions between people influence the process of making organisational strategy, as well as the content of the strategic decisions that are made."

There are tomes of mainstream strategic management literature from heavyweights such as Michael Porter that shed light on how organisations scan their environment and analyse competitors before making rational decisions on long-term goals.

But the "strategy as practice" perspective - looking at strategy as something which real people with emotions do - is nascent.

It asks the question, what do people do to develop strategies in organisations? If academics really are to help managers manage strategy better, then a deeper understanding of what they actually do seems a sensible starting point.

"My approach is to observe the microdynamics, to watch in real-time the interactions between managers, the minute-by-minute displays of emotion, and how they influence the proposals that are made, and the final decisions that are taken," says Liu.

The microethnography of interactions in minute detail may be relatively new to the management field, but video ethnography - the recording of the stream of activity of subjects in their natural setting - has been used in education since the 1970s to observe student-teacher interactions and see how it influences learning outcomes. The roots of video ethnography itself can be traced back to the late 1890s when researchers recorded Senegalese women making pots.

Using microethnography, Liu and Maitlis analysed conversations about 10 strategic issues raised across seven top management team meetings at a Canadian software company and identified five different kinds of emotional dynamic, each associated with a different type of strategising process.

These range from "energetic exchange and generative strategising", as members showed their interest in the issue and in other team members' opinions, to "depleting barrage and curtailing strategising", where one team member's barrage of intense negative emotion overpowered two other team members' intense positive emotional displays, depleting their energy, curtailing the discussion, and a decision that failed

to win unanimous commitment.

"We were aware that emotions existed in important strategic discussions, but we didn't expect it to be as intense," admits Liu. "We were shocked to hear managers call each other stupid, or yell at each other 'Don't f-k up our beautiful game!' We went in there with open minds to simply observe, but we were very surprised about just how intense the positive and negative emotions displayed often were."

But as a result, Liu has some sympathy for bosses, such as Apple's Steve Jobs, Amazon's Jeff Bezos, Ryanair's Michael O'Leary and Microsoft's Steve Ballmer, who have been accused of macho or intimidating management styles in meetings.

"Talk about bullying bosses can be quite biased, as you don't see the other side of the story, and understand the dynamic between managers," she says. "Maybe it's the dynamic between them that we should blame, rather than the individual boss."

The conclusion of Liu's research is that managers must understand the emotions and dynamics of decision-making, then co-ordinate and manage them to achieve the desired outcome. She is now writing a method piece exploring how the replay of critical episodes in board meetings can help executives to reflect on how they behave and what they might do differently if they want a different process or outcome.

Tamara Friedrich, Associate Professor of Entrepreneurship and Innovation at Warwick Business School, is also convinced that managers and leaders can learn the skills of emotion recognition and management. Friedrich was one of a team of academics asked by the Army Research Institute in the US, to conduct a comprehensive review of the literature on how emotions play into the process of leadership and affect decision-making.

"Organisations such as the Army are now realising that it is foolish to ignore the role of emotions. They provide us with another form

of information that we can use to make decisions," explains Friedrich.

The literature review concluded that managing emotions does not simply imply suppressing or ignoring them, but that emotional competencies respond favourably to training.

These trainable competencies range from the accurate perception of emotions in others and regulating one's own and others' emotions, to tailoring emotional expression as part of goal-directed behaviour under different conditions and in different situations.

"While some organisations, such as the military, may not be used to talking about emotions," says Friedrich, "we found that it helped to present emotions as another type of data set which is relevant to their environment and to leadership as a whole." ■



“We went in there with open minds to simply observe, but we were very surprised about just how intense the positive and negative emotions displayed often were”



Stars & Stripes from the International Space Station Cupola - 14 June



Carly Chynoweth talks to [Loizos Heracleous](#) about how the US space agency is having to re-model itself as competition to unlock the secrets of the universe hots up

# NASA's new space race strategy

Four decades ago NASA had the public's imagination in the palm of its space-suit clad hand: its rocket ships had orbited the Earth, its astronauts had won the race to the Moon and its technologies were and are still helping humankind in fields as diverse as healthcare, solar energy and

food preservation. In recent years, however, things have become more difficult. It no longer has a monopoly on space technology in the US, thanks to the arrival of private companies such as Elon Musk's SpaceX, many of which license NASA's technology, compete for its contracts and employ its scientists.



NASA is operating under continuous budgetary pressure and a high degree of financial uncertainty – its \$18 billion in annual funding has to be agreed each year, making long-term planning more problematic. And it has come in for criticism from bodies such as the US National Research Council, which found that its 10 field centres are not managed in an integrated way; that it is constrained by a multitude of laws and regulations; and that it is not well enough funded to accomplish all the missions outlined in its strategic plan.

But there is a way for the agency to return to greatness, according to research by Loizos Heracleous, Professor of Strategy at Warwick Business School, and NASA's Steven Gonzalez. Their recent paper, *Two modest proposals for propelling NASA forward*, suggests that implementing performance-based HR and infrastructure processes, and becoming a real network organisation, would contribute to this.

The first would increase employee revitalisation, facilitate two-way movement between the agency and the private sector and encourage cross-fertilisation between the two. Becoming a network organisation – that is, integrating properly both internally and externally – would support creativity and collaboration.

Implementing these proposals is not without its challenges, says Heracleous, but the agency has already started moving in this direction through experimentation with open innovation.

Heracleous is now looking at how NASA could use an approach called 'dual strategy' or 'ambidexterity' that has helped companies such as Apple, Toyota and Singapore Airlines to manage competing pressures.

"This approach is about implementing strategies that balance capabilities or positions that are in tension," he says. "In 1993 Derek Abell suggested that companies should operate with two time horizons: one focusing on how to exploit their current capabilities, and one exploring how to develop ideas that will be useful in the future."

The tension comes in because making the most of the present means reducing costs, while innovating for the future can be expensive. The other duality, explored by thinkers such as Constantinos Markides, is around not time but business models; for instance, how to balance global standardisation versus local customisation, or high quality against low cost.

"Another example could be a full-service airline that develops a low-cost subsidiary and has to decide to what extent to integrate the operations," says Heracleous.

His research into the implementation of dual strategies has identified a number of potential pitfalls, however. Over-focusing on one aspect can compromise the whole strategy, while thinking in binary (either/or) rather than ambidextrous (both/and) terms prevents organisations

from being able to continue innovations.

"Yet companies that can find a way to balance or transcend tensions by framing their strategic challenges in a new way can outperform their competitors and develop sustainable advantage," he says.

This idea contradicts theories developed by some of the big names in leadership and strategy.

"Michael Porter, the guru of strategy, said that you could have a strategy that was about innovation and quality on the one hand, or cost leadership on the other," says Heracleous. "So, for example, Maserati differentiates itself on its quality, while a company like Suzuki is a cost leader.

"But if you could somehow have a product that was both very low in production cost and/or cost to the customer as well as of excellent quality, you would be accomplishing a dual strategy in a way that traditional strategic thinking said wasn't possible.

"And some companies have accomplished this already. If you look at Apple's cost base, on many dimensions they are actually more cost effective than Dell. Who would believe that unless they saw the numbers?

"Then there's Narayana Hospital, a private hospital in India, which can do open heart surgery for about \$1,600 whereas in the US it costs \$120,000. And what is most interesting is that the quality is the same or better when it comes to post-operative complications and infection.

"Or if you look at Toyota and lean manufacturing, they have the highest

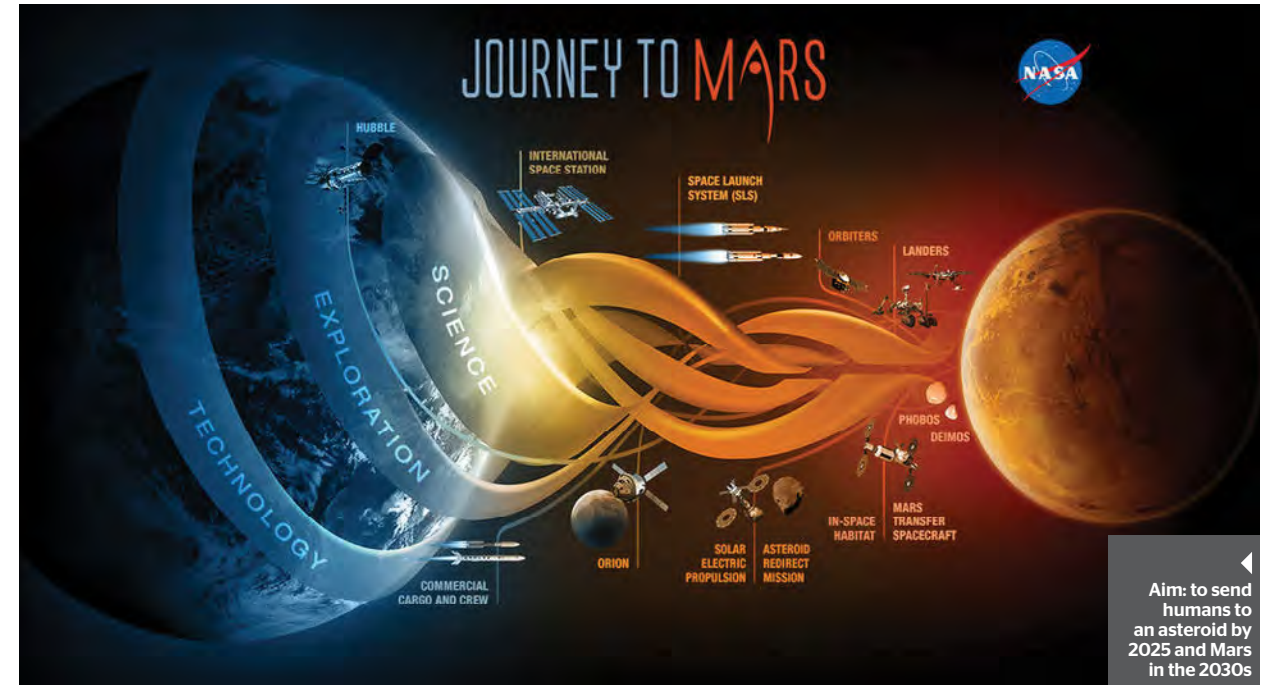
quality in the sense of lowest warranty claims... and at the same time one of the lowest production costs. And it ends up with one of the highest profitability rates because of the ability to unite these two, and the difficulty of imitation."

Achieving this sounds, then, like the Holy Grail for any politician or public sector organisation: high-quality public services at minimal cost. Unfortunately, regulatory constraints plus cultural and structural differences between it and the commercial world make implementing ambidexterity particularly difficult. One of the most challenging aspects is around engagement with the private sector; this needs to go beyond traditional customer-supplier relationships, he says.

"If you really want the public sector to achieve ambidexterity this engagement with the private sector has to be on a broader spectrum, for example on joint innovation processes," says Heracleous. "One of the five principles of dual strategy is the power of networks and business systems. No company has all the knowledge and tech that it needs to move forward so it is crucial that there are collaborations, networks."

Any public sector organisation that hopes to achieve ambidexterity needs to cut back bureaucracy – "of course maintain accountability, but not rules for their own sake"

“One of the five principles of dual strategy is the power of networks and business systems. No company has all the knowledge and tech that it needs to move forward so it is crucial that there are collaborations, networks”



## The five principles of ambidexterity

1. Strategic use of technology
2. Invest beyond financials
3. Configure culture and processes
4. Harness the power of networks and business systems
5. Develop ambidextrous leadership

– and create a culture where all staff are proud of their organisation and what it does.

Heracleous adds: "At Singapore Airlines, which is half-owned by the government, cabin staff are happy to talk to you about the wine, the cuisine, and they are proud of its quality, but at the same time they are very careful about wastage. They do not open a new bottle of wine until the first is finished." That is, the airline's staff share a culture of delivering good service without wasting money.

Heracleous' work with NASA is still in progress but he can see the foundation of a culture united by a belief in what the organisation does, he says.

"Many people talk of why they joined NASA in the first place and interestingly it has to do with what their competitor, Elon Musk, is saying, which is that humans have to be interplanetary to survive," he says. "The vision is what motivated almost everyone to join NASA... that spark is still there, waiting to be lit." ■







Great Depression Memorial, 2010 Washington, DC



Ashley Potter talks to former Monetary Policy Committee member **Andrew Sentance** about the slow growth gripping the Western world and how we will have to get used to a 'new normal'

# The crash still haunts us all

On August 9 2007 *The Guardian* ran a story on page 29 about French bank BNP Paribas blocking withdrawals from three hedge funds because of, what the paper called, "a complete evaporation of liquidity".

It seemed like another market jitter, another minor financial blip in the ongoing rise of the 'masters of the universe' - as bankers had become known.

But it wasn't. It turned out to be the first public glimpse of a devastating crisis which engulfed the global banking system as defaults in the US sub-prime mortgage market led to banks across the world literally running out of cash.

Governments had to bail banks out while financial behemoths like IndyMac and Lehman Brothers sunk and, as the panic

spread, the US Federal Reserve pumped \$700 billion into the money markets, with chairman Ben Bernanke warning, "if we don't do this we may not have an economy on Monday."

Total meltdown was avoided, but the International Monetary Fund estimates that large US and European banks lost \$2.8 trillion from 2007 to 2010 and the world was plunged into recession. Indeed, global GDP fell in 2009 for the first time since the Second World War.

Andrew Sentance joined the Bank of England a year before that fateful day in August 2007, after helping steer British Airways through the airline industry's crisis following 9/11 as Chief Economist.

If he was hoping for a quieter time on the Bank's Monetary Policy Committee (MPC) he was sorely mistaken.

"Before I joined, Western economies were enjoying a period known as the Great Stability," says Sentance. "In hindsight, I should have been prepared for something disastrous to happen as it had done at BA when 9/11 rocked the airline industry and during my time at the Confederation of British Industry when we experienced double-digit inflation, interest rates at 15 per cent and the Exchange Rate Mechanism crisis. So perhaps I should not have been surprised when the financial crisis struck."

Eight years on, Western economies are still struggling to get back to where they were before the crash. In fact, Sentance believes we may just have to get used to what he has termed a "new normal".

"The global financial crisis has been a watershed for economic growth in most Western economies," says Sentance, who maps out his theories in his new book, *Rediscovering Growth: After the crisis*. "Though Western economies have recovered, growth has not been at pre-crisis levels and some southern parts of the Euro area are faring even worse.

"People have been questioning what is going on and why we are not returning to those levels of growth of the 1990s and early 2000s, but I think we will have to get used to it in the medium-term. Well-functioning and flexible economies can and do regenerate, and we are going through that phase now as the tailwinds that characterised growth up until 2007 have gone.

"The pre-2007 growth winds of easy money, cheap imports and confidence in the policy regime have disappeared. They all started to emerge in the 1980s, with a brief interruption by the 1990s recession, and then carried on until the crisis.

"We found confidence in policy became over-confidence. In particular, banks were over-confident in the ability of policymakers to prevent house prices falling in the US.

"But now the financial environment has changed. We have seen high and volatile energy and commodity prices, and confidence in the ability of governments and central banks to keep economies on an even keel has been eroded.

"We saw a similar trio of changes in the 1970s with the collapse of the Bretton Woods exchange rate system, shocks to energy prices and loss of confidence in the ability of governments to maintain full employment.

"Prolonged structural readjustment is underway in response to the crisis and there is a rebalancing between the East and West economies. We are now looking for new tailwinds to help us rediscover growth."

While much of the world flays around like a plug trying to find a socket, where will the impetus come from to re-energise growth across the Western economies?

Sentance believes businesses need to look to the East. By plugging into the growth opportunities in Asian emerging markets the Western economies can find one strong new tailwind.

"In many markets, the Western economies are becoming price-takers in the world economy and are increasingly influenced by Asia," says Sentance, now Senior Economic Adviser at PwC and a Professor of Practice at Warwick Business School. "The EU, US and Asia account for 75 to 80 per cent of

world GDP, but the balance has changed. Asia now makes up a third of world GDP from less than 20 per cent in 1980. Beyond India and China, the rest of the so-called BRICS economies - Brazil, Russia and South Africa - have benefited from the upward pressure on energy and natural resources, but that situation has changed with the recent decline in the oil price."

Asia is the new land of opportunity for businesses; hence the many trade delegations from the UK and other Western powers to China and India in the last few years.

"The first five years of recovery in the UK saw more than 1.5 per cent growth, that is lower than the mid-1980s and 1990s recoveries, but in emerging Asian markets it was at nearly six per cent," says Sentance. "Asia-Pacific is the dominant region in the world economy now."

As well as looking to Asia, Sentance believes the UK and other Western economies need to concentrate on supply-side economics - that is lowering barriers for innovation and industry and investing in capital - to find new tailwinds to support economic growth.

"There has been a tendency to focus on the demand side," says Sentance. "In 2009 when I was on the MPC with the financial crisis deepening we pulled out all the stops; we cut interest rates and implemented quantitative easing, but now Western economies should be concentrating

on the supply side.

"Technology is clearly important in driving productivity, and therefore has the potential to create business opportunities and new sources of economic growth. We need to see investment and policy adjustments in infrastructure, education and skills to create the environment for new technology and new businesses to flourish. The pressure on sources of energy means economies need

to find new efficient uses of energy and resources to reduce costs as prices rise, another area for innovation. The recent fall in the oil price may also help growth prospects in the short-term by easing the squeeze on consumers and businesses.

"Based on what happened in the 1980s when major economies like the UK and the US restructured, reformed and found new sources of growth, we should see a new growth phase emerge in the second half of the decade. Some countries are better placed than others, and that is particularly noticeable in Europe where we have seen the emergence of a two-speed economy.

"Countries that have a flexible economy and are not so reliant on the public sector seem to be doing better, like the UK and Germany, while France and Italy are really struggling to reform their economies and adjust to the 'new normal'. The high share of public spending - more than 50 per cent of GDP in some EU member states - and inflexible labour markets are contributing to the difficulties of restoring growth in a number of European economies."

Those countries that have flexible economies look better placed to emerge more quickly in this 'new normal' economic climate, but the search for a fresh impetus to banish the memory of the worst financial crisis since the 1930s Great Depression goes on. ■

“... the search for a fresh impetus to banish the memory of the worst financial crisis since the 1930s Great Depression goes on”

CSM/Getty Images



# Brewing a motivated workforce



Keeping staff committed to their job isn't all about bonuses.

**Anna Blackaby** finds the latest management thinking is looking towards more subtle and intrinsic methods of making employees happy



It's a question that threatens to disrupt the harmony of many offices - whose turn is it to make the tea?

At London-based keyboard technology firm SwiftKey, touted as one of the UK's most promising start-ups, there shouldn't be too many arguments on that subject. At one of their regular innovation days, staff at the company built themselves a 'Mrs Doyle Tea Bot' with one vital job to do - decide who is up next on tea duty.

These innovation days take place every couple of months, when the entire firm decamps from its office for two days of open-ended creativity. Some of the things dreamed up in these sessions - such as the Tea Bot - are just for fun but many are focused on improving the day-to-day work of the company and eventually find their way into the firm's product offering.

SwiftKey's VP of Global Communications Ruth Barnett says: "The whole company goes off-site and can explore building or creating anything they like. Some people work in teams to solve particular problems, which can include product features or something for our office environment; others try something just for fun.

"There are lots of benefits to innovation days - they encourage us to learn new skills, take risks and work with colleagues we might not work closely with in our day jobs to solve problems together. Some of the ideas explored on these away days make it into our products or change the way we work."

Like many technology firms - Google being the prime example - SwiftKey has built a culture based on hard work but also curiosity, innovation and fun. Alongside the innovation days, the firm hosts regular extra-curricular activities, puts on talks by external experts and gives out personalised gifts to recognise special effort on the part of individual staff members.

Firms like this know that by tapping into employees' innate human drives - such as the need to pursue knowledge, to experience a sense of recognition and accomplishment and to feel part of a wider community - staff are more likely to stay happy and committed to the organisation.

Psychologists call these intangible factors 'intrinsic' motivators and contrast them with the classic carrot and stick 'extrinsic' motivators such as big pay cheques, bonuses, swanky

corner offices and also, on the flip side, the fear of being made redundant.

James Hayton, Professor of Human Resource Management at Warwick Business School and one of the authors of the forthcoming book *HR for Frontline Managers*, says intrinsic motivation has many advantages over the carrot-and-stick approach.

"We continue to pursue a goal without supervision because we love to do that," says Hayton. "It's natural for us - we don't have to be driven or supervised, whereas with extrinsic motivation somebody has to keep watching over us and keep giving us more and more rewards or hits with a stick. Therefore, the intrinsic is actually better for our health, wellbeing and general happiness, and it appeals to those innate drivers that we all have, the need for competence, the need for autonomy and for social affiliation."

The emphasis on intrinsic motivation is strong in fast-moving knowledge-intensive firms. These are highly competitive markets that rely on staff innovating, sharing ideas and bringing them to reality quickly in order to keep ahead of rivals. In the technology sector, the analogy of a university campus has become fashionable and firms often sell themselves to employees as places of learning, innovation and collaboration.

"Individuals do bring in knowledge, but organisations have to learn as organisations," says Hayton. "It's not sufficient for one individual to know a lot of stuff - that has to be shared and accepted by other people in the organisation for it to have an impact."

But it's not just Silicon Valley software developers who harbour the human drives for autonomy and to make a meaningful contribution. As the UK moves away from old-fashioned metal bashing towards advanced manufacturing, firms in the industrial sector will need to look at new ways of motivating staff.

"Knowledge is coming in as an important component in everybody's work," says Hayton. "So if you are a line employee at Volkswagen, you are actually probably a knowledge worker."

Manufacturing firms should also consider intrinsic motivation systems, according to Hayton. This could be something as simple as giving staff more control over workflow.

"At the extreme, if you're making bicycles and you're just putting the front wheel on the bicycle, that's not exercising a lot of skills," says Hayton. "Whereas if you're doing a variety of tasks, including deciding whether to make the orange bicycles today and the green ones next week, then you're

making those decisions and planning your work. If you can also find better ways of doing your work and change the way work is done, you make a better product, save money and save wastage."

If a factory may be an unusual place to consider intrinsic motivation, the world of sales seems like a classic case of unbridled extrinsic motivation. Bonuses are used as a big juicy carrot dangled in front of salespeople to get them to hit targets, but even here things aren't quite as clear cut as they first appear. Hidden beneath the externally-focused system, intrinsic motivation also plays a role. That bumper bonus, although nice to have in the pocket at the end of the month, can also send a strong signal to colleagues and management that you are a competent member of the team - a clear example of intrinsic motivation. "It gives you some respect and feedback on how well you're doing," says Hayton.

So if salespeople respond to intrinsic motivation just like the rest of the workforce, could companies save money by cutting bonuses and designing incentive systems based on intrinsic factors? Unfortunately not, according to Hayton, as any company brave enough to go against industry practice and scrap bonuses would lose out in the battle for the best talent. "It's the norm for the industry - if you say 'I'm not going to do that', then you're probably not going to attract the right people."

Bonuses may be the norm for sales staff but they are pretty much taboo in certain jobs. In public sector careers such as nursing and teaching, there is an unspoken expectation that staff are motivated not by pay but by intrinsic factors such as the need to contribute to society.

Is it always right that salespeople are expected to respond to financial incentives but teachers are not?

The issue is a thorny one but Hayton believes that culturally we are moving towards a stronger link between contribution and rewards across many

sectors, including the public sector.

A foretaste of this came when NHS England said it was introducing payments of £55 for GPs for a diagnosis of dementia. The debate that followed showed that links like this are still highly controversial.

Hayton believes that performance incentives, particularly for teachers, could be 'transformational'. Financial rewards tied to outcomes such as student performance or an increase in those going into higher education could help schools attract skilled staff who otherwise might not consider a career in



“... with extrinsic motivation somebody has to keep watching over us and keep giving us more and more rewards or hits with a stick... intrinsic is actually better for our health, wellbeing and general happiness”



Ivan P. Pavlov watching an experiment with one of his dogs. 1934

teaching. Moreover, these incentives could encourage these high-flyers, once they are in post, to work harder and achieve more for their students. "People who go above and beyond would be rewarded for that, whereas at the moment they are not," says Hayton.

But there is the ever-present danger, he acknowledges, that 'what gets measured, gets managed'. So any structure needs to be carefully designed to make sure it doesn't focus on one aspect at the expense of less measurable elements. A way to combat this is to bring in team-level performance incentives.

"It doesn't have to be at the individual level," says Hayton. "You can reward a team or you can reward the individual based on the team's performance."

He gives the example of elderly care, where a nursing team is incentivised for reducing the number of falls among patients. "I feel squeamish about putting financial value on that but the fact is that if people are rewarded better, you're going to reduce the falls," he says.

There is one major problem using extrinsic motivators such as bonuses to promote certain behaviours: the so-called 'crowding out' effect. Evidence from laboratory experiments

show that if you reward people for an activity they like doing anyway, the natural drive to do it for its own sake is undermined.

But savvy employers can find a way around this by presenting extrinsic benefits as peripheral to the job and keeping intrinsic benefits - such as contribution, competence and being part of a community - centre-stage.

"You can connect pay to activity without making it a big part of the bargain," says Hayton. "If you look at Apple and Google and companies like that, they actually don't attract people based on offering massive salaries. They attract people on the basis that they're doing something really exciting and interesting, and working with smart and motivated colleagues; but they

do have opportunities to earn significant financial rewards."

By keeping all the intrinsic benefits in the foreground - great colleagues, stimulating work, a sense of autonomy and of making a valuable contribution - many technology firms are getting the right balance between external and intrinsic motivations.

Plus, they probably don't have many quarrels over whose turn it is to make the tea, either. ■

“Evidence from laboratory experiments show that if you reward people for an activity they like doing anyway, the natural drive to do it for its own sake is undermined”



# How to ruin a good idea



Apple Pay could herald the end of the wallet, but in Kenya it has been around for years. **Mark Piesing** discovers how squabbling egos delayed the technology from reaching the West by 15 years

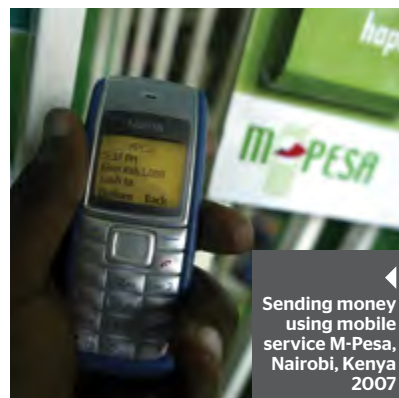
Flying cars, domestic robots and microwaves that could make meals to order were all technologies that futurologists predicted would be embedded into our lives by now. As was the technology to pay for a coffee or a bunch of flowers with just a wave of the hand rather than a fist full of coins – indeed, this seemed rather a safe bet. It wasn't.

Even with the introduction of Apple Pay (a mobile payment service that allows users to pay in shops with one tap of their iPhone), paying for everyday items with a wave of your phone is still largely a fantasy to most people in the West, although it is already part of the way of life in many parts of Africa and Asia. Mobile payments can refer to paying for, say, the box set of *Game of Thrones* on your tablet at home. However, in a wider sense it is referring to something much more radical than an extension of e-commerce. It is about being able to use your phone rather than cash or card and in the future about being able to leave your wallet or purse at home for good.

The delay in mobile payment breaking out into the mainstream

has always been a mystery to those outside the industry, as the technology to achieve this has been around for at least 15 years.

Now Pinar Ozcan, Assistant Professor of Strategic Management at Warwick Business School, and Filipe Santos, Professor of Entrepreneurship



Sending money using mobile service M-Pesa, Nairobi, Kenya 2007

at INSEAD, have discovered why it has taken so long in the West for this technology to become part of the daily nine-to-five. As they explain in their paper *The Market that Never Was: Turf Wars and Failed Alliances in Mobile Payments*, it is all about power.

"It's a political game between the banks, the operators and the handset

manufacturers who are used to being dominant players in their industry and suddenly they have had to collaborate together," says Ozcan. "And they fear what is at stake is nothing less than who would dominate the new market."

And it is a market whose worth is set to jump from \$1.8 billion (£1.15 billion) in 2013 to \$189 billion (£120.6 billion) in 2018. It is estimated that so far in the US only about six per cent of the population has used this kind of mobile payment.

While there are other technologies that could deliver the dream of cashless payments, even Apple sees Near Field Communication (NFC) as the best option at the moment despite the fact that it relies on old-fashioned radio. NFC allows smartphones and similar devices equipped with a simple tag to use radio waves to quickly transmit encrypted data such as debit or credit card information or loyalty programme data to a similarly equipped point of sale device provided they are less than 10 centimetres apart.

To find out exactly why a technology that was seen way back in 2002 as the next big thing still hasn't entered the mainstream, and to gain



The free Starbucks Card Mobile App

a better understanding of how new markets emerge, Ozcan and Santos studied the sector between 2006 and 2011 and conducted 65 interviews with 40 local and global industry leaders.

What they found, says Ozcan, was the perfect example of a "vicious circle", because "when you don't agree, you don't make the investment and there is no infrastructure" like NFC-equipped smartphones, high quality user interfaces or point of sale devices. This then means there is less consumer interest and less incentive for the companies to work together.

"So the approach of these dominant players to the negotiations was very much one of dictating the terms rather than collaboration or compromising," says Ozcan. "What the service is called, where the chip goes, who deals with security all ended up becoming big discussion points that never got resolved."

Dominant players, Ozcan argues, were simply not used to having to

collaborate and found it difficult to judge the value of their negotiation position when the market they were negotiating about didn't really exist.

"From the outside they appear to

Starbucks became fed up waiting and have successfully introduced their own cheap alternative that acts like a gift card by using an app that customers download on to their phones

be small choices, but they weren't as they had big implications for who dominates the industry," says Ozcan. "If, for example, the chip went on the SIM card then because cards are provided by the mobile operator the

banks would be become dependent on the operators, who would then become kings of the new service.

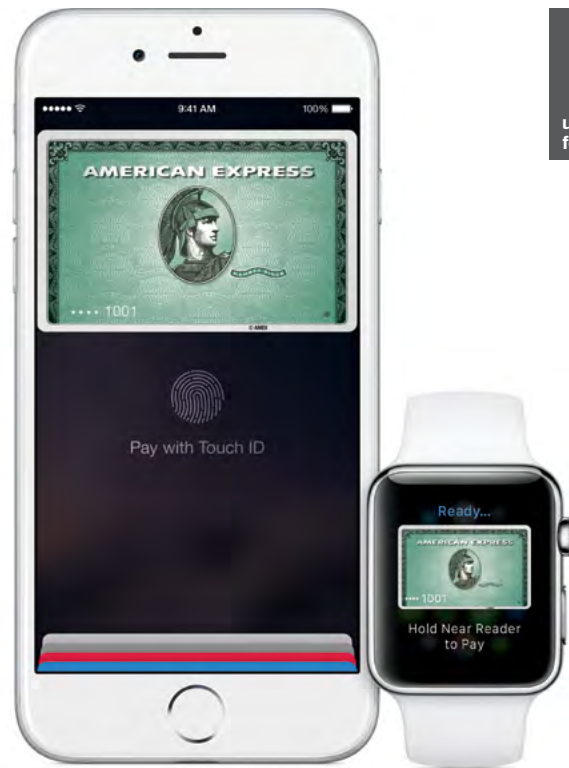
"As they couldn't agree they literally walked away from it and ended up doing their own projects which were inferior."

These projects also distracted them from the negotiations, with the banks ending up with contactless cards and mobile operators trying to use SMS for payments. Others, like retailer Starbucks, became fed up of waiting and have successfully introduced their own cheap alternative that acts like a gift card by using an app that customers download on to their phones which then displays a 2D barcode that is scanned at the checkout.

"So if the banks and operators couldn't agree on the design then merchants were saying why should I invest in a point of sale device," says Ozcan.

And the end result was a lack of





Apple Pay - will we soon use our phones for everything?

Tobias Schreyer, co-founder of e-money specialists the PPRO Group, provider of B2B services to companies like Visa and Mastercard, agrees that the slow take-up of NFC has been due to a number of factors like “point of sale, the authorisation of the network infrastructure, critical mass as well as the lack of consumers”. The mobile operators and by default the hardware manufacturers’ reluctance to engage with NFC earlier will mean “they will get the bill as they lose out on these transactions”, says Schreyer.

Schreyer, though, is positive about the future, as the introduction of Apple Pay to the iPhone 6 has, he believes, “encouraged the whole industry to adapt at a faster rate”.

“The consumer will prevail and they will just use NFC-enabled contactless payments, whether their card or account is loaded onto their phone by Apple, Google, a retailer or even more realistic – by their card issuing institution,” says Schreyer.

Andrei Charniauski, Senior Marketing Specialist at analysts IDC, agrees with Ozcan that it is all about the technology as “you need to get hardware on the ground to make consumers use it and right now there isn’t much”.

However, now it is also “all about big data as well” and who will control it. Ultimately it will, he believes, take five to six years “to reach critical mass when you can be confident of going into any store and it will accept any phone”.

Whether Apple is big enough to achieve this critical mass by itself is a different matter. In the end it is rather ironic, says Ozcan, that in the midst of these power struggles what was never a problem was customer demand.

She says: “There have been many pilots around the world in cities like Atlanta and they have achieved some very high satisfaction rates.

“However, there will be a tipping point and one of the services will win perhaps as quickly as in two to three years’ time. It is like a game of musical chairs when everyone knows the song is ending.”

After this, Ozcan says, we will be using our phones for “everything” such as controlling our home and unlocking our car. ■

infrastructure. Apple pulled out of providing mobile payments with the iPhone 5 as the similar Google Wallet, which was introduced earlier, seemed to have struggled for this reason.

So why didn’t a big bank buy a small operator or a big operator buy a small bank and provide the service? The problem is that people won’t switch.

Adoption of the technology was much faster in countries like South Korea and Japan, Ozcan says, because consumers will use a bank, mobile operator and even shop from the same group of businesses called ‘keiretsu’ in Japan. In Kenya mobile payments took off due, in part, to the absence of an existing banking and telecommunications infrastructure.

In the West though, many retailers who first lined up with Apple Pay in the US then switched camp to their own CurrentC system, which uses QR codes and their own app, and allows them to keep track of their customers’ behaviour.

But when Apple finally decided to go ahead with Apple Pay the retailers found they wouldn’t be allowed to use both, so are now dumping CurrentC. After much wrangling and delay it seems a mobile payment market is

now appearing in the West. Apple, with its hugely powerful brand and amazing hype-machine, has stolen a march with Apple Pay now available in the UK and US and set to spread across Europe. But Google, using NFC as well, has revitalised its Wallet project after Apple’s launch and is planning to relaunch it as Android Pay with the possibility of app developers designing on top of it.

“In Kenya mobile payments took off due, in part, to the absence of an existing banking and telecommunications infrastructure”

Meanwhile, Samsung has acquired mobile payment startup LoopPay, which can use both legacy magnetic stripe card terminals in shops and those with contactless terminals. It may have taken 15 years but the big tech companies are finally getting their act together.

# Ending the old boys' club



Getting more women and ethnic diversity into the boardroom has been on the agenda of organisations, campaigners and governments for some time, but it still hasn’t happened. **Ian Wylie** finds out why

Why are the boards of British companies so stubbornly white and male? Despite a growing consensus that companies with more diverse boards perform better or take more ethical decisions, the percentage of female or non-white executive directors in the UK’s biggest companies remains pitifully small.

Not only does boardroom diversity reflect the real world and the diversity of clients and customers, healthy debate from different perspectives can lead to better decision-making.

Innovative ideas often spring from disruption of the status quo. And examples set in the boardroom encourage a trickle-down effect within organisations.

“Lack of diversity hurts businesses and gives the wrong message to younger generations,” says Marianna Fotaki, Professor of Business Ethics at Warwick Business School and co-author of *Gender in the Organisation: Women at Work in the 21st Century*. “Diversity brings different perspectives, greater innovation, and people tend to behave more ethically, rather than conforming to the social norms of the in-group. Diversity is not just good practice - it’s simply the right thing to do.”

Yet all-white executive teams run 69 per cent of FTSE 100 companies – that’s up from 65 per cent at the start of 2014, according to a study by Green Park Executive Recruitment, which found not a single person of Chinese or east Asian origin on the board of any of Britain’s biggest companies. According to the Office of National Statistics, 14 per cent of the UK population is non-white.

Former UK business secretary Vince Cable called on FTSE 100 firms to ensure they recruit at least one non-white director

by 2020. He had considered calling on companies to aim for 20 per cent of directors to be drawn from ethnic minorities by 2020, but the target was reduced following lobbying from the Confederation of British Industry and Institute of Directors.

Cable also led the calls for an increase in the number of women in Britain’s boardrooms. A review by Lord Davies set a target of increasing board membership of women to 25 per cent in FTSE 100 companies by 2015. Having started at 12.5 per cent, it stands now at more than 22 per cent.

However, that overall figure is boosted by women in part-time roles, with around 28 per cent of FTSE 100 non-executive directors being women, compared with just over eight per cent in executive directorships.

The UK Government is using targets rather than legally binding quotas. In Norway, the first European country to force gender quotas on listed companies – the Government enforced a law in 2008 stipulating that women must make

up at least 40 per cent of boards at listed companies that have more than 10 employees. However, research by the Norwegian School of Management and New York-based consulting firm McKinsey and Co suggests the quota has done little to remove the “glass ceiling”, with many women still failing to succeed in the top tier of large firms.

## The slow pace of change

Belgium, Iceland, Italy, the Netherlands and Spain have all enforced gender quotas with varying degrees of success. Whether quotas are effective or not, national governments are frustrated with the





with male influencers to formal work interactions, although they did go for drinks and dinners with female colleagues (who tended to be more junior). Having forged trusting relationships, the male aspiring directors were much better at keeping in touch with previous bosses and influential others when they moved jobs, and therefore knew more people who could potentially recommend them for board roles.

There was a noticeable difference too between the networking activities of male and female aspiring directors. The men attended both business-focused events and business social events such as golf tournaments, racing at Ascot, rowing at Henley, and Wimbledon during work time. The female aspiring directors did not attend these events to anything like the same extent, missing out on maintaining and building relationships with influencers.

“The women were happy to attend business events and undertake networking, which gave benefit to their employer, but were far less keen on doing this to benefit their personal goals,” says Bushell. “The male aspiring directors were more cognisant of the personal benefits, and studied attendance lists to ensure they only attended events with senior people present.”

In short, men are far more willing than women to leverage their social capital when looking for board level roles. All but one of the male aspiring directors reached out to their influential contacts and asked them to bear them in mind if they heard of any board roles. The vast majority of the female aspiring directors did not do this, preferring instead to use the formal route of registering their interest with headhunters. Even when the female aspiring directors did ask influential contacts for help, they were far less likely to receive it. They were both less able and less willing to leverage their social capital.

pace of change among their largest companies.

“Governments won’t get a great deal of action unless there is firm and solid regulatory requirement placed on organisations to force them to make the change,” says Kim Hoque, Professor of Human Resource Management at WBS.

Hoque’s recent research includes a study of the UK Government’s Two Ticks scheme for encouraging employers to employ more people with disabilities. He concluded that the scheme made little substantive difference.

“Voluntary standards such as these don’t do much more than badge existing good practice,” he says. “Whether or not a scheme prompts change or not comes down to the enforcement regime. The real areas of power in corporate boardrooms remains white male-dominated, and if the Government wants greater change, I think there has to be an element of stick as well as carrot.”

It’s a view shared by Meryl Bushell, a former BT Chief Procurement Officer, who is completing a PhD at WBS examining the role of networking in boardroom selection processes. Board and senior executive level jobs are rarely

advertised and Bushell’s research draws on data gathered from 82 interviews with chairs, headhunters and aspiring or recently appointed male and female directors, to see if and why aspiring female directors have poorer quality networks and less “social capital” than their male peers.

“The selection process is based on word of mouth recommendations and informal referencing from existing chairs and senior board directors,” says Bushell, who explains the UK Corporate Governance Code requires organisations to either use headhunters to manage director selection activities or explain why they did not use them.

“The aim of this provision is to widen the pool of potential candidates and move away from selection through the ‘old boys’ club,” she says. “But I found that even when headhunters were used, the main sourcing activity was through asking existing chairs to nominate

individuals. Where the Chair of the company with the vacancy nominated an individual, that individual invariably was placed on the long list and maintained an advantage throughout the selection process.”

Executive director roles are often filled through internal

“Since chairs are predominantly male, their traits and attributes favoured males... For both executive and non-executive roles, selections were rarely made based on measurable objective criteria”

GraphicArts/Unifield/ED/Getty Images

promotions, without the use of headhunters, and where individuals have been identified and nurtured through a succession planning process. Individuals identified in this manner are very often sponsored by the CEO and Chair of the organisations. The role of building trusting informal relationships is even more important in these circumstances.

Three quarters of the male aspiring directors interviewed by Bushell described being championed by their CEO or Chair. That compares with only one in seven female aspiring directors recalling a similar experience. When questioned, the chairs described sponsoring individuals in their own image with similar traits and attributes.

“Since chairs are predominantly male, their traits and attributes favoured males,” says Bushell. “For both executive and non-executive roles, selections were rarely made based on measurable objective criteria. A certain level of competence was taken as a given if a Chair had recommended an individual, and judgements were predominantly based on ‘chemistry’ and ‘fit.’”

### Influencing the influencers

The male aspiring directors also had more informal relationships with the predominantly male ‘influencers’, meeting them for drinks and dinners. Bushell found that women, on the other hand, tended to keep the relationship

### Avoiding selection bias

Employers, employees and governments all need to take action, believes Bushell. “If organisations are truly committed to diversity they need to examine their succession planning activities to ensure that women have the same access to sponsorship from the senior executive as men,” she argues. “Senior managers need to be educated about gender differences, stereotyping and selection bias.”

Targets for diversity should be set at every level of management in organisations, recommends Bushell, to increase the diversity of the talent pool from which directors are selected. Rigorous selection processes based on measurable objective criteria should be used. For employees, the prescription is more awareness of the importance of social capital and its role in selection processes at more senior levels.

“Many female aspiring directors did not realise how important this is,” says Bushell. “Women should consider attending business events and should pay more attention to maintaining important relationships for their own career development purposes.”

Bushell agrees that voluntary codes lack teeth. “Policies with more strength are needed to counter biases,” she says. “Personally, I believe in quotas, but not just at board level. They need to be at every management level to ensure that diversity reaches the top in executive positions, where the real power is held.” ■



# Bargain hunters



**Robin Yapp** uncovers a new theory as to how the social norms and conventions that govern our lives have emerged

**H**ow do two people pass each other in a corridor or dance together without colliding and ending up in a heap?

The answers may seem so obvious, so natural as to require no explanation. But even such basic co-ordination requires rapid decision-making based on multiple, often competing, factors.

Deciphering why people are so adept in such situations without having to talk has long occupied Nick Chater, Professor of Behavioural Science at Warwick Business School.

Now Chater and WBS colleagues Jennifer Misyak, Tigran Melkonyan and Hossam Zeitoun have proposed a theory of 'virtual bargaining' explaining how and why we follow "an inordinately elaborate set of rules without consulting any rule book" in our daily lives.

Virtual bargains are constantly being struck with family, friends, acquaintances and strangers. So wide-ranging is the concept, as described in two recently published papers, that Chater argues it holds the key to understanding why verbal communication emerged at all.

At its simplest, virtual bargaining holds that people normally behave as

they would if there was an explicit negotiation about what to do (and what not to do). If one person moves to one side of the corridor, the signal to whoever is approaching from the opposite direction is unambiguous. In many contexts we can communicate equally clearly with much subtler signals, such as a raised eyebrow or a wink.



Detailed interpretations humans make based on such signals and shared knowledge go to the heart of the theory. But in addition to these signs and how they are understood, we must also consider the many elements shaping the unwritten rules to begin with.

"We all behave in a regulated way and we can be outraged if rules are broken," says Chater, a co-host on BBC Radio 4's *The Human Zoo* and adviser to the Behavioural Insights Team, often called the 'Nudge Unit,' a recent spin-out of the UK Government's Cabinet Office. "But the list of things that contribute to them is pretty endless."

People mostly strike bargains which are beneficial to both sides and virtual bargaining is the same.

Individuals tend to use virtual bargaining "to do the best for themselves", adds Chater.

But which virtual bargains you implicitly agree on will vary greatly depending on your identity and that of the person you're bargaining with.

The dynamic between a Headmaster and a nervous new pupil heading down a school corridor on an apparent collision course is very different to that between a timid teacher and a school bully. Virtual bargaining works successfully when both participants draw the same conclusion about, in this case, who should get out of the way.

What factors determine the virtual bargains we reach? An exhaustive list may be impossible but some of the most apparent include body language, eye contact, social conventions, manners, social status, customs, habits, notions of fairness, pride and fear. Some factors may be hard-wired into our DNA and others learned from our social environment. Many are both - things we have some innate understanding of but which are moulded by life experience.

## Putting things into context

If the Headmaster stays to the right without looking up, social status and manners will surely lead the nervous pupil to move accordingly. But eye contact and dominant body language from the bully might cause the timid teacher to disregard status and fairness and get out of his way.

Also, past experience is a powerful factor at both group and individual level. Joining the back of a queue or holding a door open for someone can be considered the result of virtual bargains struck so many times they



have become conventions. For two individuals who work together or share tasks, "if you previously held the hammer while I held the nail" that makes it easier to co-ordinate next time, says Chater - yesterday's bargains are a precedent for what we will do today.

So virtual bargains are present in almost any interaction, whether or not people know each other, whether or not they have a shared goal, whether or not they'll ever meet again.

## Breaking the circularity

A classic human co-ordination experiment is the Hi-Lo game, in which two players independently choose to respond Hi or Lo. Both know if they choose differently, neither will be rewarded. If both choose Hi, they'll get a big prize, and if both choose Lo, they'll get a small prize. Experiments consistently show both tend to go Hi, as one might intuitively expect, but traditional theories cannot truly explain why.

Many theories in economics and psychology assume that players choose by trying to figure out what the other person will choose, but in the Hi-Lo game this poses a problem of circularity.

A wants to choose what B chooses and knows B wants to choose what A chooses - but what A will choose is where the problem started. Real people break this loop quite easily and virtual bargaining shows why, according to Chater.

It's as simple as thinking 'what would we do if we could discuss it as a team?' As each player wants the best for themselves, the answer is obvious. Most people quickly realise this and choose 'Hi' without discussion. The intricate web of human interaction encourages us to apply team reasoning to problems ad hoc, even if our motives are often individualistic.

Melkonyan, Associate Professor of Behavioural Science, believes virtual bargaining represents an advance on game theory, which has used the Nash equilibrium - devised by Nobel Prize winning mathematician John Forbes Nash, whose life was turned into the Oscar winning film *A Beautiful Mind*, and sadly died this year. Nash equilibria



have been used to explain the Hi-Lo game, but can't eradicate the problem of circularity, unlike virtual bargaining.

"Empirical and experimental evidence has shown there are areas where the Nash equilibrium has not worked, that is what motivated our research," says Melkonyan. "People are able to achieve much better outcomes than Nash explains, and we find virtual bargaining offers a more plausible explanation in some situations."

"When explaining many team interactions like football or rugby, where there are a lot of unspoken co-operation and collaboration, virtual bargaining has much better outcomes for the involved parties than Nash equilibrium does."

"Virtual bargaining shows how people break out of the circularity: by imagining what they would agree if they could communicate, but because this is 'obvious' they don't need to talk, they just go right ahead and do it."

### Dancing to the same beat

Indeed, firing questions at Chater leaves little doubt about the theory's potential in explaining human behaviour in a wide range of areas.

Is true improvisation possible between two skilled dancers moving without a routine?

"They have incredibly rich shared knowledge that enables fast, fluid movements," says Chater. "In a way, it's not as improvised as it looks because the rules that both dancers know are well-defined."

What about sports teams? "Team spirit and unity is not just about heart, but about co-ordinating quickly, so everyone knows what the others will do," says Chater. "Professional football teams show fantastic co-ordination, whereas primary school teams just wander the field in clumps."

Is comedy funny because we make a virtual bargain allowing performers to break the unwritten rules? "Observational comedy often involves pointing out something we all do or think, but don't acknowledge," says Chater. "And the rules become obvious when we break them - like

Monty Python's washerwomen talking philosophy. The 'unwritten' rules, of who does what, when, and how, are what guide our social behaviour."

Ultimately, Chater is convinced that virtual bargaining "is at the root of communication and we can speculate that language would never have developed without it".



Team spirit and unity is not just about heart, but about co-ordinating quickly, so everyone knows what the others will do

Misyak is a Research Fellow at WBS and gained her PhD in psychology, specialising in how human minds learn and use languages, from Cornell University in the US. She agrees that virtual bargaining can be viewed as the building blocks for language.

"Verbal communication is a type of joint action," says Misyak. "Languages are highly ambiguous, yet we don't often realise we are co-ordinating together in making rich inferences because we resolve ambiguities so swiftly."

"Any particular utterance can have vastly different interpretations due to the context. For example, if a boss tells an employee to clear his desk, we realise the boss does not literally mean to clean the desk of everything, but that the employee is being sacked. But if it was common knowledge that the employee was up for promotion and the boss had a smile on his face, then that very same utterance means something quite different."

"With irony and sarcasm words have multiple meanings; so, too, with countless seemingly ordinary uses: is 'bank' a river bed or money storage? We may not even be aware of such linguistic feats, but at a fundamental level virtual bargaining is involved, both in creating and flexibly using our language such that we tacitly 'agree' on the same meanings."

"This kind of remarkable flexibility in inference is not something other existing theories readily explain."

### What do animals do?

Chater suggests that explicit rules - whether in government, games, sports, or languages - are typically a partial and modified form of unwritten rules that developed through virtual bargaining. There are many questions he wants to explore in further research, not least whether virtual bargaining is uniquely human.

Chater argues that humans naturally look at each other to establish a virtual agreement to co-ordinate, using cues such as eye contact or facial expressions. This could be a distinctive aspect of how people co-ordinate their behaviour - distinct, for example, from shoals of fish or flocks of birds, where each animal need only 'follow its neighbour.'

Perhaps the human brain's trillions of neural connections allow us to intuitively understand what is expected in almost any situation, whereas no action is obvious to any animal until a prior action requires a direct response?

The theory of virtual bargaining may attract both support and criticism in the years ahead. That's just one of the unwritten rules academics have to accept. ■

John Gichigi/Alisport Concepts/Getty Images

# The society the world depends on



SWIFT: Is it a bird? Is it a plane? No, it's one of the most vital international organisations most people have never heard of. Without it the financial world would grind to a halt and civil unrest and chaos would quickly follow.

Guy Clapperton finds out what SWIFT is and why it is so vital to our lives

Sometimes a brief for an article sounds really thrilling. You're going to write about an organisation of which virtually nobody has ever heard but without which society as a whole would probably collapse. Great. It's based in Europe and was set up after US attempts fell through. And now its secret location is guarded by people with guns. And one of the professors at Warwick Business School has seen it. Great!

Only... it's mega-secure. He can't even discuss its location, let alone any details about what he saw. Nonetheless, Markos Zachariadis, Assistant Professor of Information Systems & Management at Warwick Business School, has co-written a book on The Society for Worldwide Interbank Financial Telecommunication (SWIFT) with Susan Scott, of the London School of Economics.

Business readers may be more familiar with SWIFT than others; if you're selling goods or services internationally and need a transfer from your bank to another, it's the organisation that helps you transfer the money. It provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardised and reliable environment. If you think of the flow of financial transactions around the world as water, then SWIFT can

be thought of as the plumbing that allows that water to flow.

SWIFT began life with the aim of replacing ageing telex machines - basically large typewriters that typed out written payment instructions entered by hand in one bank and sent instantaneously by cable to another.

"If you are familiar with this legendary device you'd be able to imagine what the potential problems were with trusting such a technology with your payments: human error, typos, connectivity issues, lack of security, free format text, to mention just a few," says Zachariadis. "However, SWIFT was much more than the new technology and infrastructure it offered. In the post-war era, where international trade was growing rapidly, correspondent banking was developing in parallel and transnational banks were competing not only for the market share, but also on the level of infrastructure."

The initial thought from a certain country was that its own systems would be the best. "US banks like Citigroup were in the forefront of developing their networks and made an effort to impose their systems and standards on their counterparts throughout the world," says Zachariadis. "It soon became apparent that individual and unilateral efforts would not lead anywhere and soon a collaborative response arose from Europe in the form of a co-operative."



The messaging system became established in the early 1970s and SWIFT was formally set up in 1973. The timing was important. At around this point, many companies were becoming interested in international trade. It's difficult to remember just how parochial organisations had started to become before that.

It began as it has remained, a messaging system, even though it's often recognised by the business community as a transaction system.

"A lot of people think SWIFT is a payment system, but it's not. Principally it transfers messages; it's a message carrier as well as a standards setter," says Zachariadis. "A lot of people don't really get that. These messages have developed over time; it started as cross-border payments and it grew to a wider range of structured messaging solutions to cover financial markets, funds, foreign exchange, etc."

It became more interesting as instructions for trades (pre-trade, trade, and post-trade) became more commonplace. "Today it's roughly 50 per cent payments and 50 per cent securities," says Zachariadis. "A lot of financial institutions and market infrastructures use SWIFT as a result."

This makes the organisation's role in underpinning society as a whole - if that's not too grandiose a claim - fairly clear. If the world was looking parochial in 1973, it's anything but some 42 years later, says Zachariadis.

"The more the network has grown, the more systemically important the network has become. Since 1998, the 'Group of Ten', or G-10 countries' central banks, has been acting as joint overseers - with the National Bank of Belgium being the lead overseer - and they maintain an open dialogue with SWIFT regarding its security measures, reliability and operational robustness."

For SWIFT, security has therefore become more of a watchword than ever. Caution over so much as its location leaking out becomes understandable, and those machine guns look like an essential feature rather than a desirable fashion accessory. If it went wrong there would be dire and far-reaching consequences, which were sufficient for thriller writer James Follett to publish a novel in 1985 (aptly titled *SWIFT*) about just how dreadful these consequences might be.

"A cyber-attack on SWIFT - or even a physical attack - would definitely create chaos around the world," says Zachariadis. "It would be catastrophically expensive for banks losing daily transactions. There are no hard and fast published figures on the money involved - and SWIFT normally doesn't give access to the numbers of trades it facilitates - but experts estimate that it is of the order of trillions of dollars going through the network daily.

"Imagine that ceasing to take place - think of any catastrophic financial event, and that's it. It would be a complete disaster; nothing would function around the world because international exchanges wouldn't work."

He elaborates a little: "It's like the plumbing of the financial industry; everybody thinks that payments and financial market transactions are more important, until... no water comes out of the tap. It's the background technology - the plumbing - that makes the whole financial system work."

So, no SWIFT would be fine for a very short while - seconds, perhaps minutes - then financial transfers would cease, international trades would stop, which would come right down to the High Street as shops would be unable to fill their shelves... you could have civil unrest relatively quickly. In 1985 the organisation was much smaller:

Follett's novel might be even more sensational were he writing it today.

Putting aside the security issues, however, assuming that SWIFT keeps operating and sustains its "five nines" policy (in other words it's up 99.999 per cent of the time and the remainder is scheduled maintenance), what other strategic objectives does SWIFT have - are there areas in which it wants to grow? It's certainly tried to make its pricing more accessible to smaller banks, confirms Zachariadis. There are also some notable absentees from its membership.

"For many years SWIFT was considered a Western dominated organisation, which is not great if you want to argue that you're a truly global organisation," says Zachariadis. "At the moment SWIFT covers pretty much all countries in the world, but it is not used equally in all countries of course."

"However, SWIFT is not just about international transactions, it works to provide solutions for national infrastructures and standards for local

economies. An example is the financial integration of the ASEAN region where South East Asian countries like Singapore, Thailand, Malaysia and the Philippines are aiming to establish an economic community. SWIFT can help them by providing common standards, interoperability, a common platform, and a single system and process."

For something that started as a basic replacement for an ageing technology, SWIFT has grown remarkably quickly and is likely to continue to do so. It has become an essential part of the banking environment as we live in an increasingly globalised world, with substantial amounts of the population utterly dependent on it, but never having actually heard of it.

With the rise of cyber-crime, that probably suits the people who run it very nicely indeed. ■



“It's like the plumbing of the financial industry; everybody thinks that payments and financial market transactions are more important, until... no water comes out of the tap”

Illustration: Rebecca Curtis



# At the wheel of an iconic name

It has been a tumultuous time for engineering firm Rolls-Royce. Helena Pozniak talks to CFO [David Smith](#) to find out the secrets to his success and how he has put strategy at the forefront of his life

It's been a busy few months for David Smith. He'd barely got his feet under the desk as Chief Finance Officer of Rolls-Royce, when the engineering company announced 2,600 redundancies and later a £3.2 billion deal with Delta Airlines. Outside of work, Smith's second novel - a crime suspense story - was published in January 2015, he's a Crystal Palace season ticket holder, he's dabbled with learning Swiss German and Turkish in the past and still manages, mostly, to keep his weekends free for his wife and three teenage children.

How David Smith succeeds to fit it all in - plus a few non-executive directorships to boot - bears testament to his belief that most things are possible if you prioritise.

"One of my strengths is taking on a lot of information from different sources and really boiling it down to discern key items and priorities," says Smith. "Once you are clear about those, it's about making sure you have very strong execution plans."

He's talking about tackling his new role at Rolls-Royce but he could be describing his strategic approach to life in general. He once described himself as a "dyed-in-the-wool Midlander", but he's as cosmopolitan as they come, with experience in China, South-East Asia and Europe, and now lives in Lindfield, Sussex.

Before taking the post of CFO of Rolls-Royce,

he worked for 11 months as Finance Director for the aerospace division. But he's spent most of his career in the automotive industry, clocking up 25 years at Ford and Jaguar Land Rover. He was one of the main agents behind the transformation of Jaguar and Land Rover from loss making businesses into a profitable premium car company, which was sold to Tata Group in 2008. Loyal, he drives a Jaguar XF Sportwagon.

It's now so long since he studied for his MBA at Warwick Business School that he has to cast his mind back to remember the year - he began the distance learning option in 1987 after nearly six years with Ford.

"I had the opportunity to go with Ford to Switzerland as financial controller, which I really wanted to do. But I also wanted to do an MBA. I came across the Warwick course - distance learning definitely worked for me, even though there was no internet or Skype, so the whole delivery was more clunky then."

Smith wanted more than academic content, and didn't want to take an MBA without several years' experience under his belt. "I wanted something I could apply on a day-to-day basis to what I did," he says.

Before going to Warwick Business School, he'd studied for accountancy exams while at Ford, which he joined after graduating from the University of Cambridge with

“He was one of the main agents behind the transformation of Jaguar and Land Rover from loss making businesses into a profitable premium car company”





a degree in Economics – a school teacher had inspired him to look at a career in industry. “I’d had a very structured start to my career,” says Smith. “On the finance side the MBA didn’t contribute a huge amount beyond what I’d learned already.”

In fact, his business education really came into play later on in his career as his responsibilities broadened and he became involved in the wider aspects of running a business. “It was in areas such as strategy, marketing and operations as I began to take more management focused roles that I really began to use my MBA. It probably becomes more relevant the more senior you get.”

But to draw on theories dating back some 25 years is risky, he says. “It’s useful to have basic models of how to think strategically but if you rely on them too heavily, you won’t look at new ideas – you need to refresh those core disciplines and be flexible about how you look at strategic problems.”

So how does he keep current? He reads – *The Economist* and selected newspapers, and has picked the brains of consultants during periods of restructuring the business.

“I guess you use your experience to build a strategic model in your mind. Although I was CFO at Jaguar Land Rover, I essentially ran the strategic process of rethinking the business from the ground up – that was intense and I worked with outside help from consultants; it required a multi-disciplinary approach.”

He’s also worked extensively abroad and has learned from each posting. And his non-executive directorships, to which he devotes a day or two a month, have been educational. He’s currently on the board of Motability Operations, an organisation which oversees disabled car schemes, and previously with the regional development agency for the West Midlands (Advantage West Midlands).

“I’ve learned a lot from them – risk management for instance. You get different perspectives, meet people you wouldn’t spend time with in your commercial world who have an interesting perspective, such as politicians.”

Smith moved in 2000 to become CFO at Jaguar and Land Rover after Ford acquired Land Rover from BMW. There he helped turn the ailing brands from loss makers to profitable businesses by 2007 with some deft restructuring. He was later parachuted in as CEO when Ford sold the businesses to India’s Tata Motors in 2008 to become Jaguar Land Rover. But then the recession hit, and the company’s premium car brands, heavy on fuel, took an inevitable hit.

“We were looking at up to a 50 per cent drop in sales of some products after the Lehman Brothers collapse. In good times you don’t pay too much attention to cash

management but suddenly, in difficult times, you’re using different disciplines. You have to be more tactical than strategic. In a downturn, customers and suppliers end up hurting and you end up being a banker for the whole system.”

Smith spent much of his time negotiating with unions to cut costs, and even now, he takes his hat off to them for their collaboration during tough decisions. “I believe very strongly the unions were instrumental in helping us get through that difficult period.”

Although he left abruptly in 2010, just shy of two years at the helm, he says this was a timely decision and he felt ready to move on. “I’d become CEO after the previous head died very suddenly,” he says. “I wasn’t looking to do it but once you’re in that position you have to react quickly and do what needs to be done.”

He’d spent some 25 years in the car industry; it was time, he thought, to work elsewhere.

Before joining Rolls-Royce, he worked a three-year stint as Finance Director at technology company Edwards, a privately-owned supplier in the semi-conductor industry. Working further down the food chain – as a second level supplier rather than “top dog”, took some readjustment.

“You had to think more about how to manage a few rather than a large number of customer relationships. It got me thinking about customer intimacy.”

Smith relished the dynamism and speed of decision-making which was critical in a sector which moved faster than the car industry. “It was a different discipline, but there was also a short-term focus in terms of delivering results.”

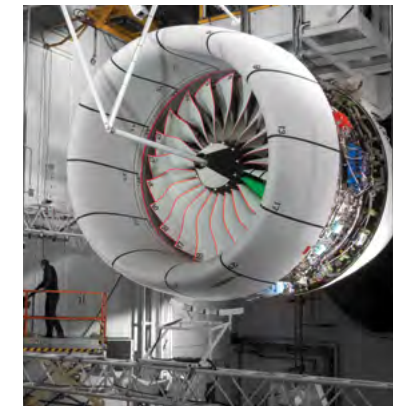
Life at the engineering giant Rolls-Royce combines the best of both worlds, says Smith – long-term

business cycles combined with fast-moving technology and innovation.

“Those are a difficult mix to manage,” he says. “We are thinking about how to make the company sing in terms of cost and cash and concentration. Those disciplines are important in most companies but for bigger companies such as Rolls-Royce, they’re essential.”

Smith became CFO of the aerospace division in January 2014 and in November he replaced incumbent Rolls-Royce CFO Mark Morris, who quit as the 2,600 job cuts were announced, after 27 years with the company. Better news came towards the end of the month, as Rolls-Royce won a £3.2 billion contract to supply Airbus engines for US carrier Delta. “That’s a credit to the whole team at Rolls-Royce,” says Smith.

How the role of a finance director has changed has been widely documented in recent years and Smith is keen to stress the job now goes way beyond accounting and



“It’s useful to have basic models of how to think strategically but if you rely on them too heavily, you won’t look at new ideas – you need to refresh those core disciplines”





Rolls-Royce dispatches the first Trent XWB Airbus engine

financial reporting. Much of his time is spent examining fundamental operating processes such as supply and demand, or product development.

“The key thing for finance people to understand is what physically drives the business and how you translate that to reported results and future projections. We can really help the business to understand the financial implications of what it is doing.”

Smith has approached his new role by information gathering – talking to investors, board members, staff, to get a clear picture and identify priorities.

Occasionally he’s contacted by WBS alumni asking advice, and he always tries to respond. During his career, the best piece of business advice he’s received is “you can’t manage a secret”. In another life, he’d be teaching business as well as practising it; and applauds WBS’ move to begin to offer flexible executive education within The Shard in London. “(Teaching) is probably unrealistic right now; maybe a bit later in a different role I would absolutely like to do that.” If he were starting out again, he’d still do an MBA; probably through distance learning again, given improvements in delivery technology. “It’s not always convenient to put your job on hold for a year.”

Although he admits his career – with a 25-year stretch in just one sector – might be unusual by today’s standards, he did move around within the business, and that variety is important, he believes. So is an awareness of different cultures – Smith is almost evangelical about the need to work abroad. During his career, he worked overseas, notably with Ford in Eastern Europe and Switzerland and Asian markets. He’s also picked up the fiendishly difficult Swiss German; his wife Judith is a linguist and she’s ahead of him there. He spent three years in Turkey, where he made an effort to learn the language.

“I’d made some assumptions before I went out about the capability of the staff, but I worked with some outstanding young finance people there.”

Seize opportunities to travel early on in a career, he

urges, before family and other commitments kick in.

And – in a familiar refrain from the wise and weary – he urges ambitious young professionals not to lose sight of priorities; he’s talking here about work/life balance. Smith works sometimes 70 hours a week, but strives to keep weekends free for family life. Astonishingly, especially for a man renowned for his brief emails, he’s managed to publish a novel, and has another in the pipeline. “Writing is my relaxation,” he explains. “It’s a hobby, an outlet for the right side of my brain. It gave me a welcome distraction from a very busy period at work.”

Much of it he put together while waiting in airports or travelling on business. “Rather than staring out of the window, I use the time to write.” He learned about discipline and structure from composing lengthy business papers, and he’d dabbled with “bad poetry” at university.

*Searching For Amber* – a tale of love, violence, betrayal and loss – is set in and around the east coast of England where he and his wife used to live after they married. Writing may be just a hobby, but this self-published novel received rather good reviews and his second book – *Death in Leamington*, the title taken from a poem by John Betjeman, was published in early 2015, and he’s planning a “Mark Twain type travelog” in the future, though this is on the back burner.

If you ask Smith the secret to his success, his natural modesty prevents him blowing his own trumpet. But colleagues have been quick to applaud his inspirational leadership. “Always do the right thing” has been his guiding counsel over the years.

Management skills, are, as everyone knows, critical, he says, but take time and effort to learn. “Lots of people are good at strategy; lots are good at operations. It’s the people who can connect the two and get to the hearts and minds of the whole team who are most effective, and that’s a slightly rarer skill.” ■

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# Five reasons why the MBA is still worth it in today’s job market



Some, like Hootsuite CEO Ryan Holmes, argue the MBA has had its day, but Crawford Spence, Associate Dean for the part-time Executive MBA run out of WBS London at The Shard, reveals that the MBA is still the kick-start many need for a high-flying career in business. Here he lists five reasons why

## Reason 1: Salary boost

There is little doubt that gaining an MBA will result in a salary boost. Using data from its 2015 Global MBA rankings – the top 100 MBA programmes in the world, which includes WBS – the *Financial Times* calculated that those 24 or under who took an MBA saw their salary increase by 145 per cent in the three years after graduation, those aged 27 or 28 saw their wages double, while graduates 31 or above saw a pay increase of 70 per cent. Investing in an MBA is costly, but the return on that investment is impressive. After all, it gives graduates the skills and knowledge needed to enter the senior management team of any company.

## Reason 2: Help

We all need a helping hand at times and a bit of advice from somebody who has done it all before can go a long way. Doing an MBA at a top business school enters you into a club that has many advantages. The alumni from MBA programmes are notoriously helpful for a reason. Proud of their school, and knowing the huge commitment it takes to get an MBA, they will help out. At WBS for instance, pretty much wherever you are in the world, there will be an alumni network. Join them and you will gain advice and contacts that will be invaluable.

One alum spoke of how he quit his job to move to Brazil with his girlfriend, he contacted the Brazilian network from his business school and in no time he had meetings, job offers and a new career lined up.

## Reason 3: Interpersonal touch

An MBA gives business men and women time out to re-skill and learn from world-class academics. Research is constantly being updated on these programmes, you will learn the latest thinking and theories on management, leadership, strategy, marketing, organisational studies and financial management. Then there are a whole host of modules you can choose to specialise in, looking at subjects like behavioural science, doing business in China, international business, entrepreneurship, global branding and risk management. Importantly, MBAs are not just about numbers these days. With many taking on senior roles, the soft skills of leadership are also taught; interpersonal skills, and how to think critically and even wisely in an increasingly complex business environment. It is not just about lectures either, there is plenty of group work, role-play, acting out case studies, and more to give a more experiential and memorable learning environment.

## Reason 4: Contacts

When do you get to meet a film producer from South Korea, a German designer, a marketing executive from China and a business analyst from India in the same room? On an MBA programme. Not only do you learn from world-class academics, but from your fellow students. Cohorts vary across programmes, but a top business school makes it a priority to build a diverse MBA class. That is, diverse in terms of gender, nationality, sector and skills, so you can learn about the German market, the smartphone sector and how a designer thinks while studying for your MBA. Working together with these people – and there will be a lot of group projects – will allow you to learn from them, increase your knowledge of different business cultures and build a relationship that can last a lifetime. Many new ventures start by meeting people from different backgrounds on an MBA programme.

## Reason 5: Change management

Fancy a change of career, feel stuck in a rut? Well the MBA is the ideal gateway to a new start in life. The *Financial Times* 2015 Global rankings revealed 95 per cent of MBA graduates said completing the course achieved their goals and changing career is the aim of many who take it on. The MBA offers both a breadth of business knowledge and the chance to focus on one area. When joining a top business school the careers service on offer will pull out all the stops to meet your needs. At WBS the careers advice starts even before you arrive, and it continues after you finish until that new career or job is found. Also, blue chip companies flood the world’s business schools to pick up top talent, you’re sure to meet the right people, the rest is up to you. ■

INSIGHT





# A day in the life

## David Winstanley at Birmingham Airport

**David Winstanley is Chief Operating Officer at Birmingham International Airport. He spent two years in the Royal Navy before becoming ramp agent at Manchester Airport. He then joined the Royal Air Force as Air Traffic Controller, operating around the world, including a tour of Iraq in 2005, before joining Birmingham Airport in 2007. With a career strongly based in aviation, he keeps his feet firmly on the ground**

**5:00** My day begins with the alarm going off at the crack of dawn. With years of experience in the RAF, however, I've become quite accustomed to such an early start.

**7:00** After a drive from picturesque Rutland, listening to Radio 4, I arrive at work. I find getting in early allows me to get ahead of my emails before my calendar starts and establish my battle rhythm for the day. I have a bad habit of missing breakfast, so I sit down with a bowl of Special K cereal and a quick coffee. I then look at the calendar and flag any urgent emails.

**8:00** A morning check of operational performance. I go into Airport control centre and talk to the Airport Manager to check on performance and see how we did at peak times.

**8:30** I have a look at the weather forecasts. Who can forget the trouble from the Icelandic ash? Being alert and prepared 24 to 48 hours in advance of adverse weather is essential.

**9:00** Executive team meeting: Operations Director, Head of Sustainability and other heads get together to plan the week ahead. Safety is always on the agenda.

**10:00** I drop in to see CEO Paul Kehoe for an update on the last 24 hours so he has a theme for what's going on each day.



“You'll always pick up something new, so keeping the 3,000-metre long real estate open and efficient with lighting and navigation aids is a challenge, but one I relish”

**12:00** I then join the other execs on a conference call with the shareholders to discuss management accounts and other performance issues, so occasionally I have to miss lunch.

**14:00** I grab a sandwich with the Operations Director.

**14:30** With all the talk about a proposed high speed rail link from London to Birmingham and the Davies commission (Airport Commission) – plus the fact that this was a General Election year in the UK, there is always a general interest from Members of Parliament in visiting Birmingham International. So today I have to show one of them around while discussing the ins and outs of the Airport.

**17:00** With the visit out of the way I then move on to my next task: inspections on the airfield. I've been doing such checks for seven years since I've been at the Airport, and as a former RAF traffic controller I never get bored of doing it. You'll always pick up something new, so keeping the 3,000-metre long real estate open and efficient with lighting and navigation aids is a challenge, but one I relish. I'll do this three or four times a week. While walking around I point somebody to where to go for the next bus to Solihull and I show somebody how to catch the train to Manchester Piccadilly Railway Station. Any peak day we have around 32,000 people passing through the Airport, so I'm always interacting with the public.

**18:00** I try to get ahead of tomorrow by checking urgent emails again.

**18:30** Time to leave the office and head home to finally get a decent meal and put my feet up. I must fly. ■



INSIGHT





# City guide

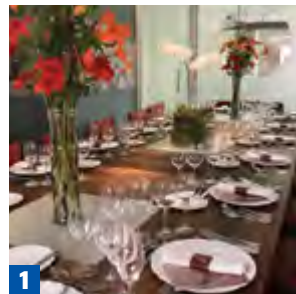
## Rio de Janeiro



**Renata Morris, MBA (Warwick), Engineer at BNDES (The Brazilian Development Bank) shares the delights of her hometown of Rio de Janeiro, known in Brazil as the “cidade maravilhosa” (marvelous city)**



Rio de Janeiro is a vibrant metropolis best known for its love of football, stunning beaches and its annual carnival. The second largest city in Brazil, and founded in 1565 by the Portuguese, it has a rich and vibrant culture which welcomes tourists from all over the world. As host of the 2016 Summer Olympics and Paralympics, the global spotlight will once again fall on this vast and spectacular city.



### Where to eat

One of my favourite places to eat in Rio is the eponymously named **Roberta Sudbrack 1** restaurant located near the botanical gardens in Rio's upscale Zona Sul area. Sudbrack used to be chef to a former Brazilian president in Brasilia, Fernando Henrique Cardoso, and the fresh and tasty



dishes she produces in her restaurant bring together a combination of Brazilian ingredients resulting in the creation of multidimensional flavours. Opened in 1894, **Confeitaria Colombo 2** is Rio's most famous tearoom and its Art Nouveau decoration and fine pastries make it a lovely haven to visit right in the centre of Rio. There is also a branch at Copacabana which offers great breakfasts and excellent views of Copacabana beach.

◇ [www.robertasudbrack.com.br](http://www.robertasudbrack.com.br)  
◇ [www.confeitariacolombo.com.br](http://www.confeitariacolombo.com.br)

### Where to shop

Whether it is a record or book shop, or a vintage clothes stall or a market, there are lots of great places to go shopping in Rio. **The Feira de São Cristóvão** is an outdoor market where locals and tourists go to hang out, dance, shop and eat typical Brazilian food from the north and north-eastern regions.

◇ [www.feiradesaocristovao.org.br](http://www.feiradesaocristovao.org.br)

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### Sights not to miss

The summit of **Sugar Loaf Mountain 3** offers a spectacular view of the city and its beaches. One of Rio's top tourist attractions, the mountain offers a peak that towers at the entrance to **Guanabara Bay**, within the city limits of Rio de Janeiro (in the district of Urca). Its summit can be reached via cable car but there are more than 270 climbing routes of varying lengths and difficulties on Sugar Loaf and neighboring peaks Morro da Babilônia (Babylon Mountain) and Morro da Urca (Urca's Mountain) for those who are feeling energetic. Together, these peaks comprise one of the largest urban climbing areas in the world. The **Christ the Redeemer** statue **3** is a must-do attraction while in Rio. The famous statue, situated on the top of the **Corcovado mountain**, offers splendid views of the “Marvelous City”. The best way to visit it is by



taking the train ride up to the top of Corcovado mountain. **Santa Teresa 4** is a bohemian neighborhood

of Rio de Janeiro, famous for its narrow streets and a favourite spot for artists and tourists. A former upper-class neighbourhood, Santa Teresa has been revived as an artistic hotspot, nowadays home to several artists, art studios and galleries, and offering plenty of good restaurants.

### Where to chill out



To experience great live Brazilian music and a truly amazing ambiance visit the **Rio Scenarium 5**. Located in **Lapa** -

a region full of restaurants, nightclubs and venues - Rio Scenarium combines high quality entertainment and excellent traditional Brazilian food.

◇ [www.rioscenarium.com.br/novo](http://www.rioscenarium.com.br/novo)

### Nearby cities to visit

If time allows there are other hidden gems not far from Rio de Janeiro that are worth a visit. **Búzios** - Originally a tiny fishing village, Búzios is located about two hours north of Rio de Janeiro and offers visitors sandy white beaches and lively nightlife. **Petrópolis** - The city of Petrópolis is located 60 km away from Rio and has been called the Imperial City since the times of the Emperor Pedro II. Settled in by the Germans, Petrópolis keeps the memory of Brazilian history alive with its buildings, gothic Cathedral and charming streets. ■



# Five books I love

## Dr Christian Stadler

Having written a book analysing how companies succeed for 100 years I have some idea of the time and effort that goes into them. Here are the books that inspire me to write...



In 1942 the BBC first aired *Desert Island Discs*, a format where guests are invited to choose eight records they would take with them to a desert island. I took the same approach here, presenting five books I would take to a desert island (had I not read them already).

Dr Stadler is an expert on long-term success. For the past decade he has devoted his energy to the investigation of long-living corporations - how they grow, adapt, and consistently beat their competitors. His book, *Enduring Success*, was a six-year study of the strategy of some of Europe's biggest and oldest companies, including Nokia, Royal Dutch Shell and Lafarge. Dr Stadler is a member of the Editorial Board of the *Strategic Management Journal*. His work has been featured in the *Harvard Business Review*, *Sloan Management Review* and leading academic journals.

### A book that brings back happy memories

***Floating City: Hustlers, Strivers, Dealers, Call Girls and Other Lives in Illicit New York***  
Sudhir Venkatesh



Let's be honest: New York is the world's greatest city. Where else can you find love (I met my wife there),

have the greatest parties (I remember Windows of the World on top of the World Trade Centre), eat food from all over the world, and feel the buzz of multiculturalism in the same way? I just had to include a book about New York here for those reasons.

The book actually has a nice story. I picked it up in the University bookstore in Dartmouth College during a research trip last year. It always fascinates me how these University bookstores in the States manage to showcase exactly the kind of books I love. I miss this in the UK and back home in Austria. My intention was to bring this back as a present to my wife (remember we met in NY), but I could not help starting to read it myself straight away.

And wow, this is a great book. First, some serious ethnographic research went into it by a sociology professor from Columbia. Second, the guy knows how to tell a story, and third, this book is full of surprises. Sudhir Venkatesh maps out the city based on a few characters and manages to show how the various layers of society connect. It would be interesting to see whether this is true in London as well or whether the 'class' divide separates everything. ■

### A novel that reminds me of home

***Rauhnacht***  
Volker Klüpfel, Michael Kober



I could have chosen any of the books from this detective series as I love them all, but this book is one of my all-time favourites.

The main character, Klufftinger, is a hilarious detective who loves 'Käsespatzli' (a local dish popular in the region where the stories are set) and spends his time trying to avoid his wife's attempts to go on adventure trips or meet up with her friends for dinner (particularly the husband of her friend, a doctor). He generally prefers not to be bothered.

The book is a prototype of the popular new genre, Alpine crime, and has a touch of Agatha Christie about it, in the sense that the detective is stuck in a luxury hotel high up in the mountains due to too much snow when a murder occurs. As he attempts to find the killer, he is assisted by Dr Langhammer, the husband of his wife's friend. He is not thrilled about this, but Dr Langhammer is very keen and cannot be deterred.

I love this book: a) because I love crime stories and b) because it is set in the mountains not too far from where I come from in Austria. ■

### My favourite strategy book

***Strategy and Structure: Chapters in the History of the American Industrial Enterprise***  
Alfred D. Chandler



Like good wine, good books stand the test of time. This 1962 book clearly passes the test. (I was also tempted to put down Edith

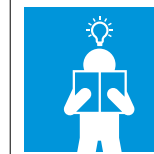
Penrose's 1959 *The Theory of the Growth of the Firm* but *Strategy and Structure* narrowly won my personal contest for best strategy book).

The core argument is so established that it hardly needs mention: Structure follows strategy. What Al Chandler means is that corporate structure is created to facilitate the implementation of corporate strategy. He uses four fascinating case studies to describe how corporate America adopted the M-form, a federation of semi-independent geographic and product divisions co-ordinated by the headquarters. His case studies were GM, DuPont, Standard Oil of New Jersey, and Sears Roebuck.

Interestingly, Chandler had a special connection to two of his case studies: earlier in his career he had ghost written the autobiography of Alfred Sloan, the legendary GM manager. The second connection was to DuPont. His great-grandmother was raised by the DuPonts after the death of her parents and the family was intertwined for years. As with many of my favourite books I also have a strong personal connection. When I did the research for my own book, *Enduring Success*, Chandler invited me to spend some time in Harvard. The connection was my former PhD supervisor (Professor Mathis) who assisted Chandler when he wrote another of his great books: *Scale and Scope*. ■

### A book that resonated with me as a strategist

***Collapse: How Societies Choose to Fail or Succeed***  
Jared Diamond



One of the questions I have been very interested in throughout my career is why some companies succeed and others fail.

In this book Jared Diamond asks a much bigger question: why do some societies succeed and others fail? In the better known *Guns, Germs, and Steel: The Fates of Human Societies* Diamond addresses the first part of the question. Personally, I like *Collapse* - the book addressing the second part of the question - even more.

Diamond takes us through several thousand years of history. From the collapse of the Easter Islands all the way to modern day Rwanda.

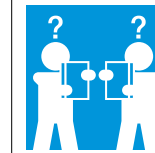
A story I found particularly fascinating in the book was the one of the Greenland Norse. A clan of Vikings, under the leadership of Erik the Red, set sail from Iceland after a dispute involving some killings and eventually arrived in Greenland with 25 ships in 980 AD. For the next 500 years a population of up to 5,000 Vikings lived there before they completely vanished. So what happened?

The problem was that the Vikings tried to establish a European style pastoral society which was not fit for the climate. By cutting trees, stripping turf, and overgrazing they caused soil erosion and slow but steady depletion of their resources. Around 1300 the climate cooled and plunged into the so-called 'Little Ice Age' and the Vikings vanished from Greenland. Interestingly the Inuit had arrived around the same time and continue to live there today. What they did differently to the Vikings was set up a society fit for the environment.

This story resonates with me as a strategist. Firms can only survive if their strategy fits with the competitive environment in which they operate. Diamond is a gifted storyteller and he succeeds in extracting a few interesting conclusions from mountains of data. ■

### A book that sparked a debate

***The Innovator's Dilemma***  
Clayton Christensen



No matter which guru ranking you pick up, Clayton Christensen is going to feature. His idea that even the best companies are regularly

disrupted by innovations that do not fit the established technology trajectory has been one of the hottest ones of the past few years.

I find it very compelling as well. Take business schools at the moment. They make a decent living teaching smart students (with sufficient financial means). The assumption of students (which holds up at the moment) is that they get a degree from a top school and will go away making tons of money themselves afterwards. But here come Massive Open Online Courses (MOOCs) and the option to join classes from top teachers online. At the moment this is by far not as attractive as attending classes on campus where I actually engage with fellow students, executives, and academics.

But what about the future? It is perfectly feasible that these online options develop in a way that they offer the same or even more attractive ways to learn. It would not make sense for top schools to undermine their own business proposition by offering everything for free online (remember the time when newspapers were still making money and not giving everything away for free?). I don't think our main 'customers' (ie our students) would be too keen on this either. But will that pose a problem in the future?

Of course not all industries play out that way. In fact many industries are more stable than we think, but nonetheless this is an important and fascinating idea. ■



# Russia's grip is loosening



The Ukraine conflict seemed to threaten Europe's gas supplies, but **Mike Scott** finds it may have precipitated a shift away from an over-reliance on Vladimir Putin's Russia

For much of last year, the conflict between pro-Russian rebels and Ukraine was the key energy concern for European governments worried about possible disruption to their gas supplies from Russia.

Yet in the second half of 2014 the oil price fell 50 per cent and a year into the Ukraine conflict, according to Michael Bradshaw, Professor of Global Energy at Warwick Business School, "so far at least, the conflict has not affected gas prices".

This could still change, but as relations between Vladimir Putin and the West have deteriorated over the last year it might be surprising to some onlookers that the Russian President has, up until the beginning of 2015, not used gas as a political weapon against the EU. Bradshaw, who has studied Russia's energy policy since the 1990s, reveals that Putin understands the interdependent nature of the gas trade and Russia can ill-afford the loss of income. Cutting off supplies to the EU would be a last resort.

So despite the conflict, there has been no reduction in flows of gas transiting Ukraine to the rest of Europe, as there was in previous crises between the two countries in 2006 and 2009.

Yet there is still nervousness. While previous confrontations were disagreements about payments with a small element of geopolitics thrown in, the current one is the exact reverse. The price charged to Ukraine for gas is entirely political, Bradshaw points out.

"Previous discounts were granted in return for political concessions. When the Kremlin did not like the look of what was happening, they were withdrawn," says Bradshaw. "It's a strange situation where the Russian President dictates the commercial terms for Gazprom - the world's largest extractor of natural gas, but it is clearly what happens.

The Kremlin uses energy relations to promote its global foreign policy goals."

Russia might have reasonably expected the global energy situation to help it maintain its pressure on its western neighbour and its allies, but that is not the case. Its economy is facing severe constraints as a result of EU and US sanctions arising from the situation in the Ukraine - it grew just 0.4 per cent in 2014. This is now exacerbated with global oil prices falling by more than 50 per cent in the second half of 2014 and gas prices by more than 30 per cent in the same period. This has been caused by the growth in production from US shale oil and gas, Saudi Arabia's determination to maintain market share among world oil producers and an easing in China's economic growth.

Not only does this fall in state revenues from oil and gas magnify the impact of western sanctions, but it reduces the leverage that Russia could apply by threatening to withhold supplies. Add to this the fact that demand for gas is depressed anyway, particularly in Europe, and the impact on Russia's finances is severe.

There are different views on what is causing the fall in prices, says Bradshaw, but he adds: "Putin thinks it is a US conspiracy, even though it is squeezing margins for shale companies.

"Others think this is OPEC who are putting the boot into the shale gas and tar sands companies in North America. Whatever any political motives there might be, the fall in global prices are simply a response to market fundamentals."

The growth of the shale industry means the US no longer needs to import much oil and gas, Bradshaw points out, "so there is plenty of oil and gas, strategic reserves are full and prices have fallen". This is hurting most OPEC members, as well as Russia, because many oil exporting countries depend



Political cartoon of Putin, displayed in central Moscow, 2015

on an oil price of \$100 a barrel to pay for domestic government spending and to balance their books.

So far, Putin has managed to convince the Russian people that this is a global conspiracy against them, and that the hard times are not his fault.

"Russia is drawing historical parallels between today and the 1980s, when they believe the fall in the oil prices helped to bring about the break-up of the Soviet Union," says Bradshaw. "But many of the economic problems Russia faces are long-term systemic issues related to the failure of the Government to reform the economy and reduce dependence on oil, gas and other extractive industries."

"If there is a groundswell of discontent as the economy slides downwards, who knows what could happen? The Arab Spring scenario worries places like Russia, because there is an implicit social contract based on rising prosperity. What happens when the pie shrinks?"

Yet this is not just Putin's problem, but the West's too, he argues.

"Some in the West would be delighted to see Putin out of power, but what happens next could be even worse," says Bradshaw. "The liberals in Russia are in complete disarray and there could be a move even further to the right. It's a potentially dangerous situation that needs careful management."

The fall in gas prices seen in international markets has a delayed impact on Russia's fortunes as Gazprom's prices are linked to a six-month moving average, which means that lower prices will start to filter through in 2015. However, this strengthens Ukraine's position because with global prices depressed, it may be able to secure a lower price when new negotiations with Gazprom begin.

Nor does Russia's much-vaunted deal to supply gas to China really help its leverage over Europe. This is a development that has been on the cards for a decade or more. If anything, the

situation in Ukraine puts Russia at a disadvantage because it highlighted the fact that Russia's need for a deal is greater than China's. However, Bradshaw believes this is not just a commercial transaction, "it is underwriting the strategic relationship between China and Russia".

The situation in Ukraine is "part of a bigger picture of how Russia sees its place in the world and the role it wants to play", suggests David Elmes, Professor of Practice and Course Director of the WBS Global Energy MBA.

Russia would prefer to see a divided market in Europe where it can deal with individual countries and companies while the European Union is trying to create a single, transparent market for energy that it hopes would lead to lower prices for all EU members. "But this may be the tail end of the time when gas markets are regional, and can be controlled by certain producers and what pipelines are in place," argues Elmes. "The ability to transport gas in ships as liquefied natural gas (LNG) has been rising. New supplies are due to come on line from markets such as Australia, and the US will soon be exporting its shale gas as LNG. A global market for gas is an emerging reality and Russia knows it needs to participate."

Russia's ability to use energy as a political weapon is likely to further diminish over time as all the major economies improve their energy efficiency and increase the amount of renewable energy they use. There is a danger of using energy resources as a political tool if you are not totally in control of the market, as has been illustrated. When it comes to oil, Russia cannot respond to lower prices with significantly higher volumes to increase income. Nor can it cut back on production to raise prices as supplies will come from elsewhere around the globe and it will just give away market share.

At the same time, its traditional, conventional fields are depleting and it needs to invest in offshore and unconventional resources.

"It is not in the driving seat at all," says Bradshaw. ■





# Brain drain is a gain

RESEARCH



Immigration is a hot topic in the developed world while emerging countries like India complain of a brain drain. But **Lucy Hodges** finds new research arguing it is good news for both sides

In the last 20 years some companies from the developing world have grown spectacularly fast. They have internationalised, expanding into developed markets and buying businesses left, right and centre.

It has been a widespread phenomenon, prompting *The Economist* to observe that “many of the developing world’s champions have risen from zero to hero in just a couple of decades”.

The rise of these companies benefits their countries enormously, improving their balance of trade, increasing foreign exchange reserves and strengthening the currency.

Why have some companies from the developing world succeeded in growing in developed countries whereas others have not? One answer, according to Sourindra Banerjee, Assistant Professor of Marketing at Warwick Business School, is that some of these companies from the developing world are led by people who have either been educated or worked in the West.

Among leaders with Western education or work experience who have spearheaded this international growth into developed countries are: Ratan Tata, the former Chairman of the Tata Group, who attended Cornell University and Harvard Business School; Cyrus Mistry, the current Chairman of the Tata Group, who went to Imperial College London and London Business School; and Anil Ambani, who runs one of India’s top three private businesses Reliance Anil Dhirubhai Ambani Group, is a member of the board at WBS, and has an MBA from the Wharton School in the US.

All three were educated in the US and the UK and have been instrumental in expanding their companies into Western countries. For example, both Tata and Mistry have spearheaded the international growth of Tata Group into developed countries, resulting in Tata Group becoming the largest employer in the UK.

For Ambani, studying an MBA at Wharton in the US in the 1980s was an unusual thing to do because very few Indians did it then, but he got a lot out of it, he says. Crucially,

Pacific Press/Getty Images

it gave him a global view as well as the financial grounding to innovate in the Indian capital markets later. He loved the institution’s diversity and the fact that 30 per cent of his class was international. It was the first time he had lived abroad or away from home on his own so he got a fast education in becoming independent.

“I think it is very important for people to go abroad to study,” he says. “They are now going to the East as well, to places like China and Abu Dhabi and to schools in Singapore, because business education has become a global arena. The Wharton calling card or the WBS calling card is a huge psychological advantage in the business world.”

Many years ago, he recalls, he met the CEO of Merrill Lynch and found that he shared a Wharton education. “It just made us connect,” he explains.

The thing that struck him most about Wharton was having a non-core mandatory class in the first semester on appreciation of music and the arts. At first he wondered why he was being made to study subjects that bore no relation to business.

“This turned out to be some of my most important learning. I learnt how to speak to audiences and how to engage people,” he says. “It made me a more rounded person.”

In the first paper to study this subject Banerjee and his co-authors examined 116 Indian firms over a 10-year period. The results support their thesis that companies from emerging countries that grow in developed nations learn indirectly about the West through their leaders’ education and work experience. Simply put, leaders with education from the West expand their companies in the West.

These leaders play an important role in the international growth of companies from developing countries for a number of reasons, says Banerjee. Their Western education gives them a keener appreciation of the opportunities in developed markets; an understanding of what it takes to enter and compete there; and a first-hand awareness of the needs and expectations of Western customers.

Other reasons for the success of companies from developing countries in established Western markets are that they learn from their competitors and from other firms in their networks how to, for example, manage brands and make better product decisions.

These findings have implications for political leaders from both developing and developed countries. Received wisdom in developing countries like India, Mexico and Brazil has it that letting citizens go abroad for study and work results in a brain drain and should be discouraged. Similarly, in developed

Hindustan Times/Getty Images

countries it was thought that allowing immigrants to study and work would result in job losses.

But this research shows that both developing and developed countries can benefit by allowing, even encouraging, people to travel from Asia and Africa to study and work in the West. By letting citizens study and work in developed countries, business people from developing countries gain access to leaders who can help expand their enterprise into the US or Europe. On the other hand, by allowing immigrants

from emerging economies to study and work in developed countries, these Western countries gain access to investments when these immigrants return and become leaders of companies.

Banerjee suggests that, rather than emigration and immigration controls, politicians in both developing and developed countries should consider scholarships or loans to enable more students from emerging nations to be educated in the West.

Furthermore, developing countries are under pressure from business leaders to pursue protectionist measures to shield domestic firms from international competitors. The message of Banerjee’s research is that they should resist them.

“Our findings suggest that developing market companies have much to gain from opening up to developed market competition and that policy makers in developing markets should not bow to the demands of domestic business leaders to keep protectionist barriers high,” says Banerjee.

The research argues that developing countries should actually encourage the entry of Western companies so that local firms can learn from them.

They could do this by encouraging trade associations to bring together domestic and foreign companies and by organising international trade shows where local companies can talk to companies from the developed world.

Companies in developing countries often recruit by hiring large numbers of young graduates from domestic

universities who have no international education. They then develop them into the managers of the future.

But these companies lose out on talent from outside recruits with experience of the developed world. Banerjee suggests that human resource managers in developing countries should find ways to recruit such people.

“Doing so would create an internal pool of managers with developed market experience who could eventually lead these firms,” says Banerjee.

“In this way, developing country companies would be better positioned to learn how to compete in developed markets which would, in turn, increase their ability to grow globally.”



“Received wisdom in developing countries like India, Mexico and Brazil has it that letting citizens go abroad for study and work results in a brain drain and should be discouraged”

RESEARCH





## India's Western-educated tycoons



### ◆ Anil Ambani

The tough and hard-working Anil Ambani, educated at Wharton, US, and member of the WBS board, runs a conglomerate worth \$6.3 billion, according to Forbes. His Reliance ADA Group has interests in telecom, energy, entertainment and financial services and he is one of the largest producers in Bollywood. He is seen as a financial wizard, pioneering many financial innovations in the Indian capital markets.



### ◆ Cyrus Mistry

Youngest son of an Irish-Parsi construction tycoon, Cyrus Mistry took over the Chairmanship of Tata Group in December 2012. Educated at Imperial College London (BEng Civil Engineering) and London Business School (MSc Management), he was previously Managing Director of Shapoorji Pallonji & Company. Tata cover seven industries including steel, power, hotels, cars and chemicals.



### ◆ Ratan Tata

Former Tata Chairman Ratan Tata is now Chairman Emeritus of Tata Sons. He completed his BSc Architecture with Structural Engineering at Cornell University and stayed in the US to study at Harvard Business School. Under his leadership Tata bought Tetley, Jaguar Land Rover and Corus, which turned it into a global business with 65 per cent of its revenue coming from abroad.



### ◆ Vivek Paul

Vivek Paul founded KineticGlue, a cloud-based software company, having previously been a partner at TPG Capital, one of the world's leading private equity investment firms. He took an MBA at the University of Massachusetts Amherst and from 1999 to 2005 was Vice Chairman of Wipro. It was a \$150 million company when he started and helped turn it into a global business with revenues of \$1.4 billion.



### ◆ Azim Premji

Azim Premji is the fourth wealthiest Indian, according to Forbes, with a personal wealth of \$16.4 billion. He was studying Engineering at Stanford University, US, when news came of his father's death. He assumed control of Wipro and transformed it from a vegetable oil manufacturer to a high-tech software company which earns 90 per cent of its revenues from developed markets.



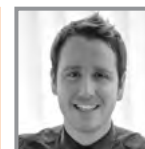
### ◆ Rajiv Bajaj

Managing Director of Bajaj Auto, Rajiv Bajaj acquired an MSc Manufacturing Systems Engineering at the University of Warwick. He introduced the Pulsar range of motorcycles that revived the fortunes of the ailing Bajaj Auto and transformed the entire industry in India. He has also made Bajaj India's largest exporter of motorcycles. ■

Indrani Mukherjee/Getty Images | Vivek Paul by Christopher Michel/Flickr/ licensed by CC 2.0 | Azim Premji/Copyright Wipro | Rajiv Bajaj/Copyright India Today



# Why failing never felt so good



Martin Boonham meets Ashley Roberts to find out how creativity is being re-planted back into students before they head into a world desperate for innovative ideas

In 2006 Sir Ken Robinson gave a talk at the annual TED conference arguing education is killing creativity: online the talk has now been viewed more than 30 million times.

The former Government advisor and education guru feels schools across the globe all have the same standard hierarchy when it comes to

education: mathematics and languages at the top and the arts and drama at the bottom. This, he believes, is down to the fact such systems were established during a period of heavy industrialism when education was solely focused on academic ability and seen as a precursor to university entry.

Creativity is almost educated out of children due to putting a fear of

failure into them, Robinson suggests. Without being wrong, he argues, how can we ever do anything original?

Such a conveyor belt approach to education has resulted in creative types feeling marginalised and yet, as the world struggles to recover from the financial crisis, new ideas, innovation and creativity is what is needed.

It is with this threat to creativity,



and an ever-growing demand for innovation in mind, WBS Create is tasked to inject creativity back into the educational mix.

In that regard, Ashley Roberts, Assistant Dean for Creativity, has acted as a trailblazer for the school, adding numerous creative elements to various classes and collecting a number of awards for his novel approaches in the process.

Why is Roberts such an advocate of unleashing creativity in various guises on his classes? Well, he is adamant a creative approach to teaching adds much more to a student's learning experience.

"Students are not photocopiers," he argues. "They should not be there to sit and absorb everything from me like a sponge under the assumption I know everything and then vomit it out come exam time. This is not learning as I see it – we can do so much more.

"My teaching philosophy is devoted to unlocking human potential through the combination of self-belief, passion for my subject matter and the use of creative and innovative methodologies for critical research-led learning."

Roberts has deliberately tried to squash conventional power dynamics in lecture theatres by making his classes 'open spaces'. In an open space environment there are no chairs and no pre-established classroom dynamic and while Roberts says some students initially react with a 'what the...?' kind of expression, it actually creates a safe environment for students.

He adds: "An open space gives the students an environment to fail. They might feel uncomfortable at first, after all students are taught at an early age that you can't fail through countless assessments, exams and the like which demand success, but failure is important: in a business setting you rarely have such an opportunity.

"There is a concept of learning to fail better and a rehearsal space allows students to do this. They can have a go, and then reflect on the outcomes. After all, being a reflective practitioner is a skill businesses increasingly want to see in their staff."

A creative approach, such as the use of open space learning, also gives

students the opportunity to escape the restrictions of a conventional lecture and be themselves.

Roberts uses various other methods to bring creativity into the classroom. One moment students will be banging two sticks together to form an orchestra or jazz band, the next they will be literally elevating a class-mate into the air and making them fly. Throw badminton and even midwifery into the mix and you have a typical day on Roberts' Coaching and Team Leadership module.

“There is a concept of learning to fail better and a rehearsal space allows students to do this. They can have a go, and then reflect on the outcomes. After all, being a reflective practitioner is a skill businesses increasingly want to see in their staff”

"For an outsider looking in, it might all seem strange," says Roberts. "But there really is a method to the madness!"

Roberts believes engaging individuals through innovative and fun classes fosters heightened learning, and that this lasts longer in students' memories, therefore making for a wider impact in society. This is supported and informed by a wealth of theory on the use of play.

As an example of experiential learning, Roberts discusses how his class might look at case studies. The lived experience helps makes a situation more relatable, he explains.

He describes using the 'whoosh' system, where students play roles in the case studies before stepping to the side and out of the role when asked to 'whoosh'.

Such an engagement with the material through acting and music makes it much more powerful and gives students a great way to remember

a case study rather than simply going over 15-page documents. This embodiment of ideas is the key to successful experiential learning.

With undergraduates now paying up to £9,000 a year they need to feel they are getting more from their degree than they would from a lecture that could easily be watched online.

"Throughout the module, I discovered how I can keep learning once I leave the University," says Law and Business Studies undergraduate Daniar Rusnak.

"In the real world, we all learn creatively through our senses, emotions, past experiences and from the knowledge of authoritative voices.

"This module pushes you to deconstruct that learning experience and piece it back together, gaining a better understanding of how to do so repeatedly in any situation.

"Experiencing this module felt very akin to how experimental education would be portrayed in a Hollywood blockbuster movie - fast-paced, interesting, norm-challenging and at the end all students leave knowing a lot more about themselves."

While Management undergraduate Bradley Glover, adds: "I'm not convinced you can learn about leadership in generic classrooms or through theories on a screen.

"Theories aren't always applicable in today's messy, dynamic business world. For me, being able to learn through doing, through different disciplines, through bringing a creative presentation to life that fuses academia and showmanship, brings the concept of leadership quite literally to life."

The world outside a lecture theatre often throws up unexpected scenarios which cannot be solved simply from a black or white perspective. Through a different approach to teaching, however, Roberts believes students can benefit from creative classes which take them out of their comfort zone and arms them with the knowledge to tackle such scenarios.

"They can understand leadership better as they can remember how they felt at the time," says Roberts. "Students have the chance to learn creatively, but then also have time for reflection.



Students undertaking a WBS Create session

"They can learn a great deal from reflection, but the business world does not often allow them the time and space for this.

"Conversely, it is these reflective practitioners – people who know what they're good at – and people with the right attitude, not just the ability, who are now being sought out by employers.

"The value of this experience equips them for their future in work and also beyond in society, as people who reflect on their action and continuously learn from their experiences will be much the better for it.

"Some students may find the creative modules a little ambiguous to start with, but they soon find their groove. It is important to remember in the world of work that this level of ambiguity is a reality, life isn't always clear.

"In the real world students will have to be OK with not always knowing what to do and a creative class teaches them how to approach problems from all sorts of different angles."

For students it helps them bring something different to the table. In a competitive world where many can boast the same qualification,

employers are looking for someone a bit different, someone who has a bit about them, who can reflect and think critically.

With new and creative methods now invading the lecture theatre is there still a place for conventional teaching? Roberts believes so.

“In the real world students will have to be OK with not always knowing what to do... a creative class teaches them how to approach problems from all sorts of different angles”

"We might triumph the benefits of creativity, and I certainly believe it is the best way," he says. "But is it the only way? Of course not. Chalk and talk certainly has its place and can be hugely beneficial when delivered effectively.

"In fact, education is all about

being able to deliver a class in a style you're most comfortable with. Everyone has their own methods for this and one shouldn't be overlooked for another. In an era of MOOCs and online learning a diversity of approaches is really useful."

Does Roberts think more schools, businesses and universities need to look into bringing creativity into their syllabus to help make a more creative future?

"Oh yes," he says, "There is now an established community of both students and employers who really want this. Employers want it, they want people who can look outside the box – it's now an expectation for many and not just a sentiment."

It is only by pulling the plug on the conveyor belt that produces photocopier-style students, and challenging pupils to truly push themselves, that education will develop the business leaders filled with the creativity and innovative skills to meet the challenges of climate change, a growing global population and dwindling resources that stand before the post-crash generation. ■



# Wise beyond your years



Wisdom comes with age we are told. **Hari Tsoukas**, Professor of Organisation Studies, disagrees. He believes wisdom can be taught and feels being a wise leader is also necessary in an increasingly complex and uncertain world. Here, Martin Boonham, asks Professor Tsoukas about leading wisely

## Martin Boonham: What makes a 'wise leader'?

**Professor Hari Tsoukas:** A condition for a leader to act wisely is to strive to maintain the balance - even better, the tension - between knowing and doubting. As the distinguished organisational psychologist Karl Weick remarked "wisdom is an attitude, not a state of things". To maintain the balance between knowing and doubting one needs to act like an acrobat, adjusting one's posture as one walks on the wire.

Take the example of Admiral Thad Allen, the national incident commander of the Deepwater Horizon oil spill. When he was asked whether he brought to the management of the oil spill a 'template' from his previous experiences, he answered: "Yes and no." He tells his experience of handling similar incidents in the past (the "yes" component), but he also notes that every incident is different and its uniqueness must be grasped (the "no" component).

The attitude of wisdom makes a leader sensitive to context, to the competing values and stakeholders' perspectives that, simultaneously, must be paid attention to for the sake of some superior common good, and to the process through which both the situation at hand and the way it is handled change.

## What sort of people are 'wise leaders'?

Psychological studies show that wisdom is an attribute

of a well-integrated and mature personality that involves self-development and self-transcendence.

Self-development has to do with a reflective attitude to experience, and an awareness of one's pre-judgements - the biases and prejudices one inevitably brings to a situation.

All this has to do with a leader's ability to simultaneously generate different descriptions of a situation - to develop what

I call "second-order complexity". Recall, Admiral Allen's response: "Yes and no." The "and" is important: similar past experiences and the uniqueness of the experience at hand are joined together. It is as if he says: "I know and I do not know" at the same time. Knowledge gives him the ability and confidence to undertake action.

Doubt about his knowledge allows him to explore the uniqueness of the situation at hand and change the mental model he inevitably brings to the situation (namely, to work on his pre-judgements). Self-transcendence means transcending individualistic, narcissistic thoughts and feelings to embrace collective and, even, universal concerns.

The best recent example here is Nelson Mandela. Having spent 27 years

in prison, his instinctive reaction would have been to restore justice in South Africa through taking revenge on his oppressors. Being adored as a leader, he could have indulged himself, relishing the glory and privileges of power, and 'follow' the popular sentiments of the time. Instead, he opted for

“Having spent 27 years in prison, his (Nelson Mandela's) instinctive reaction would have been to restore justice in South Africa through taking revenge on his oppressors... he opted for forgiveness, reconciliation and the future”



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forgiveness, reconciliation and the future. He also stepped down from President to give the country the opportunity to mature politically and institutionally without him at the helm.

Mandela's unwavering effort to push aside sectional sentiments and focus instead on the national common good, and his ability to see himself as a leader whose job is to lead rather than merely follow his people, enabled him to symbolize the country he had envisioned.

You can only imagine the self-transcendence required: put your ego aside and see yourself as a tool for the achievement of the common good. It is an extraordinary and hugely exemplary achievement that inspires.

## There is not a true single leadership style is there? Should a good leader therefore adapt many different leadership styles?

A good leader needs to adapt his or her style, certainly, without losing coherence and credibility, but beware: for situational adaptiveness to be productive, it needs to have been developed and ingrained into the personality of the leader. Adaptability is not so much a calculated response ('if the situation is X, then do Y') as an intuitive capacity to do the right thing, in the right context, at the right time. What is 'right' is not always defined or clear in advance; one needs to work it out by staying in tune with the particularity of the situation, one's perceptual grasp of it, and with one's moral compass. Adaptability is a virtue that is the product of experience and volition.

Look again at Admiral Allen. Referring to Hurricane Katrina, in the handling of which he also had a pivotal role, he exalts a leader's flexibility in switching mental model when the situation requires it. "It was clear to me", he notes, "after 24 hours in New Orleans that we weren't dealing only with a natural disaster". The uniqueness of the catastrophe brought about by the hurricane was that "we had lost continuity of Government. So the mental model became more like the response to a weapon of mass effect". Admiral Allen went on to talk of situations in which he needed to depart from protocol and go "off book".

Adaptive leadership means having an intuitive grasp of the situation you handle so that you can respond appropriately. Soon after he took charge of the Katrina response operation, Admiral Allen went on to address a huge meeting of 2,000 workers at Baton Rouge. His inspiring talk gave moral support, reassurance, and guidance to his bewildered staff. It was the right thing to do, at the right time. How did he know it? He just knew! That's what being in tune with the situation means.

## Are mistakes ok for a leader?

### Are there any mistakes you've seen leaders regularly make?

To err is human. Why would leaders be exceptions to this? All people make mistakes, but leaders, because of their particular role, are prone to particular kinds of mistakes.

Here are a few: over-confidence and the associated vices (typically, a know-it-all attitude, arrogance, self-absorption, and narcissism), indecisiveness, fear of delegation (and the associated difficulty of trusting others), and not walking the talk. Typically, several leaders' mistakes stem from the relationality of leadership - leaders and followers have expectations of one another, which, if not handled properly, may create vicious circles and lead to mistakes.

Take over-confidence, for example. We expect leaders to know what they do, to be confident and show it. However, looking at leaders from 'within', they do not always know what is required, they often "walk in the fog" (to use Milan Kundera's brilliant phrase), and have doubts about the effectiveness of their actions or even about their abilities. None of this can be legitimately shared with subordinates.

We expect a certain façade and leaders, especially in a society of instant and constant communication, often construct and show the façade we expect them to show. Ignorance and doubt are suppressed, the persona prevails. Before not too long, leaders take the persona for real and their judgement is distorted.

## What advice would you give someone going into a leadership position for the first time?

Leadership has always been about defining reality, focusing others' attention on what needs to be done, and inspiring people to do it. I am not wise enough to offer advice, but I can perhaps point a novice leader to great leaders' advice: "Leadership is the art of getting someone else to do something you want done because he wants to do it," said General Dwight Eisenhower.

And to slightly paraphrase Marcus Aurelius, stop all theorizing about what a good leader should be. Be it! ■





**Ashley Potter** discovers that bosses 'cracking the whip' should be a thing of the past as new research finds happier workers produce a better share price for firms

# It pays to care

It can't just be because Google has slides at its offices around the world that the company has been named by *Fortune* as the best company to work for in the US for the last six years.

It is frequently reported that the Californian tech company receives two million job applications a year. As well as the slides, Google also has a free cafeteria for staff, on-site perks that include medical and dental facilities, valet parking, oil change and bike repair, a free laundry service, plus 12 weeks' paternity leave. Staff are also encouraged to take time off to educate themselves, with up to \$150,000 in reimbursements, and they have unlimited sick leave.

With, according to company review site Glassdoor, some of the highest average salaries in the technology sector, it is no wonder graduates are clamouring to get into one of Google's 70 offices in 40 countries around the world.

Google's motto 'don't be evil' may be mocked by cynics, but the ubiquitous search engine has developed a caring attitude to its employees.

Laslo Bock, Senior Vice President, People Operations, says: "It turns out that the reason we're doing these things for employees is not because it's important to the business, but simply because it's the right thing to do. When it comes down to it, it's better to work for a company who cares about you than a company who doesn't. And from a company standpoint, that makes it better to care than not to care."

From a business and shareholder standpoint it is also better that Google cares about its workers. For Chendi Zhang, Associate Professor of Finance at Warwick Business School, has found that higher levels of job satisfaction lead to a better share price in the future, so truly looking after workers is good for business and something shareholders should insist on.

"Happier employees are beneficial for the firm and shareholders," says Zhang, who did the research alongside PhD student Lucius Li, of Warwick Business School, and Alex Edmans, of London Business School. "In the past paying employees was seen as a cost, as for firms in the 20th century it was about their physical output, so employees could pay

workers according to the number of units they produced.

"But modern firms work in the knowledge economy and so employees are very important, much more than in the past. In research-intensive industries, such as technology, employees are making contributions, and in many modern firms they are adding intangibles to the company like client relationships, rather than in a factory where they are costs. Employees benefit in these modern industries as it is hard to link pay to output, so worker satisfaction is important to keep them motivated.

"Google is ranked as the best place to work and its share price is very high. Indeed, in the software industry employees are key to these firms' success, it is the workers' skills, ideas and technical expertise that propels the company forward. Thus, it is important these companies look after their employees and maintain a good relationship with them because they are vital."

However, Zhang and his colleagues found this relationship between happy workers and higher share price breaks down in countries with more restrictive labour regulations. Hiring and firing in the US is a fairly simple process, but in Germany the labour market is not as flexible.

As well as the US, the researchers looked at 13 other countries; Brazil, Canada, Chile, Denmark, Finland, France, Germany, Greece, India, Japan, Korea, Sweden and the UK.

Overall they found the link was still there, and in fact the US firms' three per cent above-average stock returns placed them just 10th, with the UK showing 10 per cent returns and Japan nine per cent, though some countries had small sample sizes.

More importantly, those countries where labour market flexibility was low showed negative returns, such as Germany, Denmark and Greece.

"We found that this link between job satisfaction and higher

share price does not work if the law already provides a lot of benefits to the employee; where this is the case then the effects are diminishing," says Zhang. "In countries like Germany they already have a lot of benefits. If the government provides benefits and welfare to the employer, there are fewer incentives for companies to implement worker-friendly policies, because satisfaction in terms of job security and fair treatment is already high. There is much less hiring and firing going on in these countries, so companies are less inclined to work on keeping workers happy as they are unlikely to move away.

"When countries have a flexible labour market the share price is higher for those firms with high levels of job satisfaction, like in the US and UK. One of the motivating factors of having a great place to work is that employees will work harder to avoid losing their job there."

To make sure it is not the high share prices causing happier workers, Zhang and his colleagues studied the link between employee satisfaction and future stock returns, as a high-performing company would already have a high stock price and so would not produce a great return.

"We have found a definite link," says Zhang. "Keeping workers happy helps with motivation, productivity, recruitment and retention. It is not just about higher wages either - there are many other happiness-enhancing practices such as flexible hours, non-financial perks and giving value to an employee's job through social responsibility projects.

"Google and Apple are very good examples. Google has very employee-friendly working conditions and it is now one of the most sought after places to work. These are two very successful companies and it should make managers and investors realise how policies helping their employees can bring increased shareholder returns."

If more firms follow Google's lead it might not just be the workers flying down slides but investors as well. ■





# Seven characteristics of the entrepreneurial mindset



**Entrepreneurs come in all shapes and sizes: some fit the stereotypical entrepreneurs one sees in the media while others don't; some are driven by wealth creation while some are driven by the desire to make a difference; some create new businesses from scratch while others are entrepreneurial within large organisations. What then is common across these entrepreneurs? Professor Deniz Ucbasaran suggests it is an entrepreneurial mindset that sets them apart**

## Characteristic 1: Look before you take the plunge

Many successful entrepreneurs consider a range of opportunities before they select one. First, they look for fit by asking "is this an opportunity for me?" That is, does the opportunity allow you to build on your strengths and interests? If not, it is difficult to add value and stay motivated. Second, they ensure they are moving into a market which is growing or where trends suggest it will grow. It sounds obvious, but one of the biggest mistakes made is to move into a static or declining market.

## Characteristic 2: Focus on what you can afford to lose

How do you decide if an entrepreneurial opportunity is worth investing your time and money into? While some make endless financial projections about what financial gain they might receive, these projections can be very unreliable when entering new or volatile markets. Instead of focusing on the upside potential of an opportunity, highly experienced entrepreneurs focus on the downside. Think through what is the worst thing that can happen? It makes it easier to decide if it is worth taking the plunge. If you do decide to take the plunge and it doesn't work out, having set a limit on your loss can make moving on easier, both financially and emotionally.

## Characteristic 3: Think lean

We hear of the rags to riches stories but there are good reasons why successful entrepreneurs start lean. First, starting on a shoestring budget provides focus and discipline; you will only spend money on things that will add value. Second, all entrepreneurs make certain assumptions at the onset, but not all entrepreneurs question and re-evaluate those assumptions as the business develops. A lean operation forces you to do that. Also, when seeking external investment you need to prove you have a viable product or service before investors will look at you. If you have done this on a shoestring, it gives investors confidence. Third, you are more likely to attract people who are committed to your cause when you start lean. Finally, it makes it easier to walk away - the best entrepreneurs know when to pull the plug and move on.

## Characteristic 4: Select business partners carefully

One common mistake made when selecting a partner is to select someone who is like you and who you naturally like. But successful entrepreneurs look for partners who will complement them. A second mistake is not doing enough due diligence; you need a courtship period where you really get to know

each other. While you want different skills, knowledge and perspective in your entrepreneurial team, you want alignment in terms of core values and what you want to get out of the business. The last thing you want is a partnership where one of you wants a rapidly growing business while the other wants a lifestyle business.

## Characteristic 5: Do your homework when looking for an investor

We hear about investors doing due diligence, but why not the other way round? Investors vary considerably in terms of how they evaluate business proposals that come their way as well as how they work with businesses they invest in. For example, some are much more hands on than others. Ask yourself, what you want from an investor. Is it just the money or is it more? If you want more, are you ready for this kind of relationship? Walk into an investment relationship with your eyes wide open.

## Characteristic 6: Think about your support network

Even highly experienced entrepreneurs have mentors or individuals who support them on their journey. Who will you turn to when things aren't going as planned? A key issue in searching for and selecting mentors is to ensure you have a good match. This will involve you thinking carefully about what you need or will need in the next few years.

## Characteristic 7: Value your intuition

Although making decisions on the basis of your gut feeling isn't considered scientific, research shows that intuition is often based on your prior experience. Having said that, the latest thinking suggests that intuition does not have to come at the expense of more rational analysis. Intuition can be a valuable gatekeeper, acting as a signal for you to steer clear or explore further. ■

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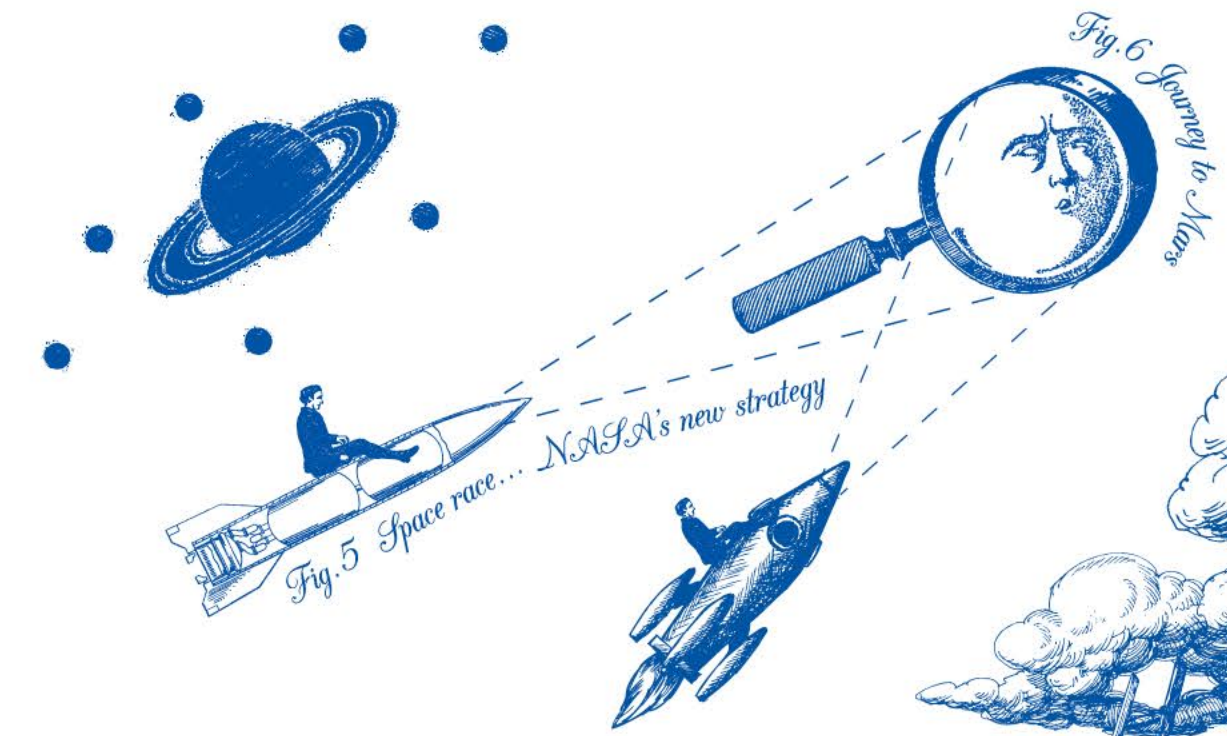


Fig. 5 Space race... NASA's new strategy

Fig. 6 Journey to Mars



Fig. 7 Golden parachutes

Fig. 8 I'm no fail whale

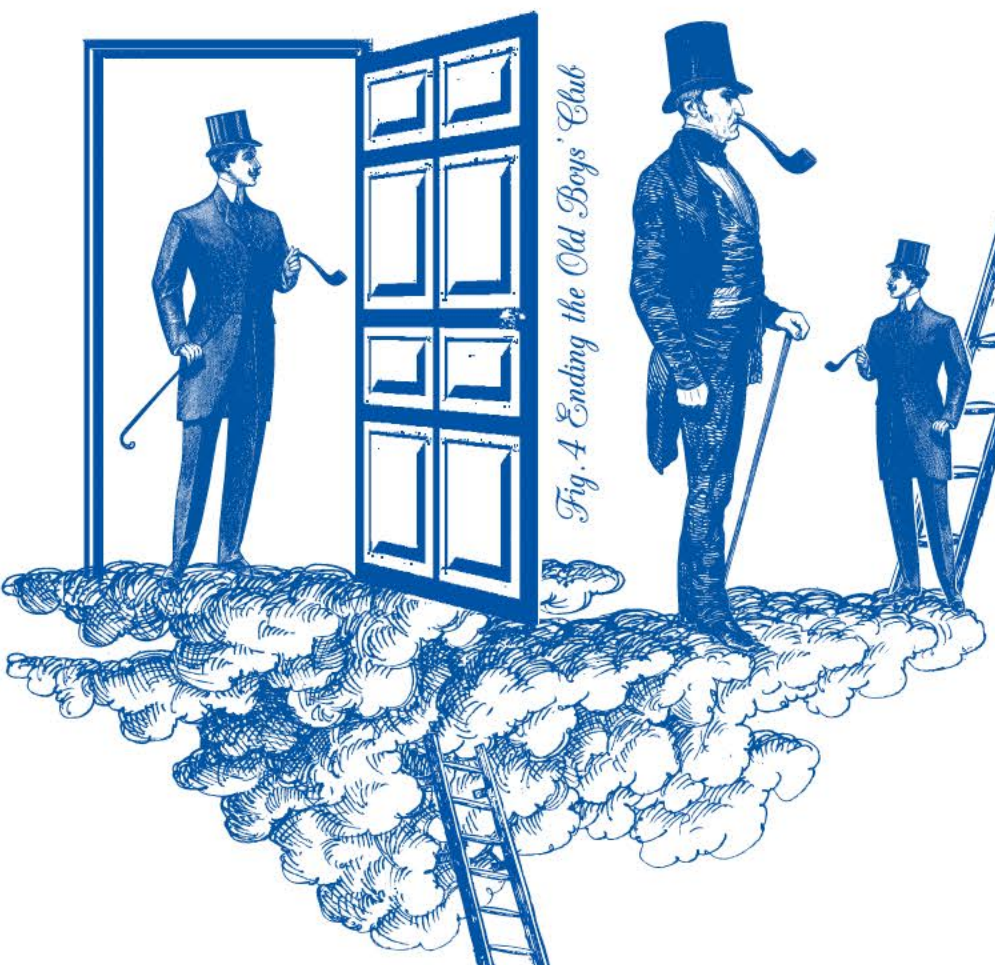
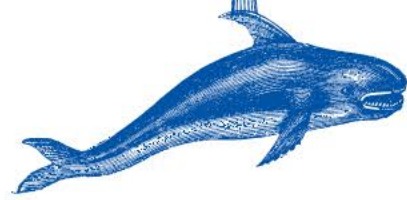


Fig. 4 Ending the Old Boys' Club

Fig. 3 Brewing a motivated workforce

