It’s a jungle out there

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**Warwick Business School:** A leap ahead
Introduction

Where do — and where should — business leaders look for help and inspiration? First, they look at other businesses and leaders and how they are dealing with their own, often similar, challenges. In this first issue of Core we present profiles of leaders dealing with widely different issues.

Paul Kehoe, CEO of Birmingham Airport, talks to Ashley Potter (Ready for take-off, page 42). Elsewhere, Angela Fitzpatrick of the Reel Fish Company provides entrepreneurial inspiration in her story from bright idea to the supermarket shelves (Canned tuna’s Real deal, page 39).

We also have wisdom on the ground from our resident experts in two of the world’s great business cities. Niti Shah provides the inside-take on Mumbai (on page 48) while Sarah Zareian is our guide to London (page 50).

But leaders don’t simply get inspiration from best practice. Research, and the ideas and insights it generates, are vital sources of business inspiration. Having an impact on business is what Warwick Business School (WBS) is all about. Academics make sense of business reality and trends. Sonhine Bartram does just that with the complex world of derivatives (The wisdom of derivatives, page 50). And Stephen Roper’s research into mid-market companies sheds important light on one of the most frequently overlooked potential sources of economic growth (Growing from the middle, page 23).

Lozoso Henriqueous has been analysing one of the world’s greatest corporate success stories of recent years: Apple. His conclusions shed new light on the company’s remarkable achievements (Quantum strategy at Apple Inc, page 56).

Our net is wide. Qing Wang provides new insights into the opportunities presented by the rise of China (Understanding Chinese, page 14); Gerry McGivern looks at healthcare in Kenya (A lifeline for Kenyan babies, page 54); David Elmes and Monica Giulietti provide a fresh take on global energy (From Dallas with love, page 16); and Kamel Mehari gives a snappy introduction to the world of nonmarket strategy (Feel the force, page 20).

Deniz Ucbasaran and Andy Lockett (Tuning up your leadership skills, page 8) look at leadership through a new lens. Their research has looked at the leadership of legendary jazz band leaders from Duke Ellington to Miles Davis. Their ability to lead hugely talented groups of individuals offers practical lessons for modern leaders. Along a similar theme of learning from the best, Dawn Elbanks’ research sheds new light on the shared experiences and backgrounds of Nobel Prize winners (How to win a Nobel Prize, page 12).

Creativity is very close to our hearts. As Jonathan Neelands explains in his article, Creativity Inc. (page 26), creativity is not a diversion nor an indulgence, but key to business success. “Time and time again creativity unlocks and reconfigures the social and economic building blocks of a new era,” he observes.

Also, core to our thinking is the exciting and fast developing field of behavioural science. Nick Chater (Big problems; small solutions, page 36) offers insights into the UK government’s Behavioural Insights Team.

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Since management guru Peter Drucker compared the job of CEO to that of an orchestra conductor, the business world has been exploring metaphorical comparisons and inspirations from the world of music. Take Boston Philharmonic Orchestra conductor, Benjamin Zander’s riff on leadership and creativity for business executives. Or innovation expert, and former Harvard Business school faculty member, John Kao’s book Jamming, a refrain on improvisation and creativity. Now, Warwick Business School Professors Deniz Ucbasaran and Andy Lockett are hitting all the right notes with their study of famous jazz musicians, Leading Entrepreneurial Teams: Insights From Jazz, accentuating some essential insights for entrepreneurial team leaders.

Ucbasaran and Lockett (together with Durham Business School Professor Michael Humphreys) chose jazz for a number of reasons. For a start, jazz bands are synonymous with creativity, improvisation and innovation; all essential ingredients for entrepreneurship. Jazz groups and their members often operate in uncertain and dynamic environments, characterised by unpredictable and rapid change. Yet through collective endeavour many famous jazz bands find their own structure and harmony, despite apparent disorder, and become profitable enterprises – both creatively and commercially.

Note taking
Initially, the authors interviewed many celebrated names in the jazz world, including Wynton Marsalis, Jean Toussaint, and the trumpeter Sean Jones. Eventually, they decided to focus on three names that came up repeatedly in their conversations, three of the most successful and best known names in jazz – Duke Ellington, Miles Davis and Art Blakey. American composer Edward Kennedy “Duke” Ellington was a pioneering jazz orchestra leader from the 1920s through to the 1970s. Trumpet player Miles Davis and Art Blakey. American composer Edward Kennedy “Duke” Ellington was a pioneering jazz orchestra leader from the 1920s through to the 1970s. Trumpet player Miles Davis and Art Blakey. American composer Edward Kennedy “Duke” Ellington was a pioneering jazz orchestra leader from the 1920s through to the 1970s. Trumpet player Miles Davis and Art Blakey. American composer Edward Kennedy “Duke” Ellington was a pioneering jazz orchestra leader from the 1920s through to the 1970s. Trumpet player Miles Davis was instrumental in the development of a number of new jazz styles, including bebop and jazz fusion. Jazz drummer Arthur “Art” Blakey became famous as the leader of his band the Jazz Messengers.

From Duke Ellington to Miles Davis, Art Blakey to Wayne Shorter, does jazz really offer lessons for today’s leaders? Des Dearlove talks to Deniz Ucbasaran and Andy Lockett

Tuning up your leadership skills

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leaders’ teams together, however, was an overarching higher goal: to create the best music.

**Jamming**

Teams must coordinate their behaviour and action to achieve an outcome. The team leader can assume a number of different roles when helping the team achieve its objectives. Some leaders are very directive, detailing what tasks they want team members to perform, and how they want them to go about those tasks. But that was not the approach Ellington, Davis and Blakey adopted. They were more informal. There was very little direct explicit instruction. Instead, these leaders acted more as facilitators, empowering the musicians to collectively coordinate their behaviour and action to produce the desired outcome. As Ucbasaran and Lockett note, Miles Davis discouraged band members from rehearsing in case it led to musical clichés from over practice. Similarly, he often asked his musicians to play a piece in an unusual key, so they did not rely on learned forms. The performers were not left entirely to their own devices though. The leader created a framework within which team members could work. This framework “balanced guidance and structure with freedom to explore, express and make mistakes.” Duke Ellington, for example, often composed small musical phrases or musical triggers for each musician, say the authors. This ensured a basic level of coordination and pointed them in the right direction, but still provided the freedom for the band member to extemporise.

Innovation and creativity, failure and disappointment, usually go hand in hand. Team members will try things out, some fail, some succeed. Team leaders should create a culture where people feel safe to experiment, to improvise and take risks. “Do not fear mistakes. There are none,” Davis is credited as saying.

**Squad rotation**

The third aspect of leadership behaviour that Ucbasaran and her colleagues looked at was managing team turnover – people joining and leaving the team. In the jazz ensembles studied, musicians joined and left on a regular basis. Yet the high turnover of team members, despite the resulting loss of knowledge and skills, was seen in a positive light. That was partly because of the benefits of getting a fresh shot of knowledge, ideas and creativity when new members joined.

A common reason for the jazz musicians leaving was that they felt sufficiently qualified to go and run another band. The three band leaders were understanding about this, particularly as it was a process they had also been through. When organisations are tackling team diversity, they should factor in the range of characteristics and attributes, such as gender, ethnicity, cultural background and functional skills. However, the evidence from the jazz world suggests that team leaders could embrace a broader concept of diversity when assembling their team of talent. Their hiring decisions should factor in cognitive and personality diversity as desirable team attributes. This is especially true for ventures and teams where high levels of creativity are required, as in the creative industries, biotech, or high-tech start-ups, for example.

**Discord and blues**

Highly disparate teams, many different personalities, and high levels of creativity is a recipe for group conflict. And, sure enough, there was plenty of dysfunctional conflict, counterproductive and destructive clashes of egos and the personalities evident in the jazz ensembles. Traditional team leadership theory suggests that to get the best team performance out of the leader they should foster conflict that promotes productive behaviours – functional conflict – while minimising and eradicating dysfunctional conflict.

But this is difficult when the sources of productive and destructive conflict are the same; that is, differences in personality and thinking. So how do leaders deal with destructive conflict? It didn’t seem to bother the likes of Ellington and Blakey. Their attitude was “the music comes first”. Discordant behaviour was tolerated on a journey towards overall harmony. The bad behaviour of “individuals” was that it was a process they had also been through. When organisations are tackling team diversity, they should factor in the range of characteristics and attributes, such as gender, ethnicity, cultural background and functional skills. However, the evidence from the jazz world suggests that team leaders could embrace a broader concept of diversity when assembling their team of talent. Their hiring decisions should factor in cognitive and personality diversity as desirable team attributes. This is especially true for ventures and teams where high levels of creativity are required, as in the creative industries, biotech, or high-tech start-ups, for example.

Dysfunctional behaviour appears to go hand in hand with the creative process in these highly disparate teams. Instead of trying to squash the squabbling, team leaders do better deploying strategies to benefit from the creative upside of tension and conflict, while accepting problems arising from the worst behaviour. If musicians were late for practice, for example, Duke Ellington did not get angry, he just started without them. What kept these

The research focused on the way that these jazz greats created and ran their musical enterprises. In particular, Ucbasaran and Lockett focused on three specific areas of leadership activity: team formation, team coordination and team turnover.

**All together now**

There were strong similarities in the process the band leaders used to assemble their diverse teams of talent. In particular, they looked for musicians with a different sound or style that was unique to that band member and would improve the overall sound of the band. That uniqueness was as much bound up with the personality of the individual musician, as it was to do with their technical proficiency.

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Ever wondered what it takes to win a Nobel Prize? Des Dearlove meets Dawn Eubanks to delve into what Nobel laureates have in common.

How to win a Nobel Prize

A total of 863 individuals and organisations have received Nobel Prizes for their work. To date, only 44 of the recipients have been women. Their average age is 59 years – the youngest winner was Lawrence Bragg for physics in 1915; the oldest, Leonid Hurwicz for Economics in 2007, aged 90.

But what links the prizewinners? Is there a pattern which could provide a formula for how to win a Nobel Prize?

The creative challenge

There is, as Eubanks points out, a practical imperative to the research from it. companies can learn how to harness creativity. Organisations spend many millions of pounds in the areas of innovation and R&D, but where best should the money be invested and how does creativity occur? "The romantic notion of the artist at his easel creating a masterpiece or the scientist in her lab making a discovery is belied by a growing body of evidence, which demonstrates that many factors beyond individual creative genius influence the creative process – factors such as job characteristics, organisational resources, support and education," Eubanks observes.

To find out more, Eubanks and her colleagues examined the lives of 59 Nobel Prize winners in physics, chemistry, medicine and economics.

In particular, they were interested in the different stages of the Nobel laureates’ careers. They wanted to know whether creativity and problem solving are the preserve of the young or does acquired wisdom open intellectual doors? Again, the implications for organisations are clear: if creativity really is the preserve of the young and inspired, what can organisations do to tap into this group?

The research also looked at the mentors and the prizewinners worked with, and their influence on them. Did they have freedom to experiment early on in their careers or were their early creative endeavours constrained? Were they part of a team? Were they open to new ideas and insights from other disciplines?

The research used a historiometric approach – a quasi quantitative-qualitative method of statistical analysis for retrospective data. This involved analysing interviews with the laureates and autobiographies of them. (Short, inspiring biographies and interviews of the winners can be seen at www.nobelprize.org).

The freedom to try new things

The research found that early career success was associated with having a degree in a different field from their prizewinning discipline, and having the freedom to try new things. "Breadth of knowledge appears to be particularly important for early career success," says Eubanks.

A typical example from the laureates is that of James Mirrlees who won the Nobel Prize for economics in 1996. The Scot studied mathematics at Edinburgh. He persuaded the authorities to condense the normally four-year course into three years, and to allow him to also study philosophy. He then went to Cambridge to study economics, worked in India, taught at Oxford and later returned to Cambridge. He lists his hobbies as “playing the piano, reading detective stories, and other forms of mathematics, travelling and listening.” Mirrlees was a kind of Renaissance man of the Scottish borders.

Or consider the career of George Akerlof who won the Nobel Prize for economics in 2001. In a wide-ranging career, Akerlof was a reporter for the Yale Daily News, worked in India, discovered sociology after a career in economics, studied Hindu-Urdu and analysed markets with asymmetric information at some of the world’s most famous universities. Again, there was nothing linear about Akerlof’s career – or his thirst for knowledge. Early career mentors are also important. “The study also clearly demonstrates the importance of the leader both in terms of mentoring and setting research habits in early career, and in managing time, resources, and relationships later in one’s career,” says Dawn Eubanks.

As an example, consider Gary Becker who won the Nobel Prize for Economics in 1992. Becker began his life as a mathematician, then discovered economics. He contemplated switching his work to sociology, but then worked with Milton Friedman at the University of Chicago. Working with Friedman and his colleagues at Chicago, Becker established a reputation after using economic theory to look at prejudice in the working lives of minorities. “It started me down the path of applying economics to social issues, a path I have continued to follow,” Becker reflected. His later work examined birth rates and family sizes.

For late bloomers, the research suggests that those who succeed are adept at making time and resources available to carry on their research. Says Eubanks, “Creative output at a later career stage tended to be characterised by exhibiting leadership and managing multiple demands. It then becomes the challenge of the scientist to free up cognitive capacity to carve out time for research to continue.”

To summarise, this is how to win a Nobel Prize: be born into a family of modest means with an abiding commitment to education; be academically exceptional (usually at mathematics); go to one of the world’s great universities to study your initial source of precocious brilliance; but then change to another somewhat related subject; visit every art gallery and attend every theatre you can; go to an even more impressive university to study for a second degree; do a PhD in your chosen subject, work with a senior thinker in the field, write a groundbreaking paper which slowly becomes recognised in the working lives of minorities.

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Understanding Chinese

Napoleon once labelled China the ‘sleeping dragon’, but it is truly stirring now and is set to breathe fire across the world. By 2025 China will have built ten New York size cities and by 2030 the country will have added more city dwellers than the entire US population. These mind-blowing facts were unearthed in a report entitled ‘Understanding Chinese’ by McKinsey & Company. These stats tell all you need to know as to why every western company is desperate to get a piece of the massive opportunity that is China since its vast potential was unveiled by the country’s move to ‘state capitalism’ some 30 years ago.

KFC, has recently vowed to open 500 restaurants a year in China, while fast food rival McDonald’s is planning to double its outlets to 3,000 by the end of next year. By 2011, 21 Fortune 500 companies had set up their regional headquarters in China. But if western companies are to take advantage of the insatiable appetite of this vast land of promise, they have to understand the Chinese consumer.

Professor Qing Wang believes businesses in the west have a long way to go before they ride this new wakening dragon into a new economic boom. Being brought up in China, educated in the west, and currently Professor of Marketing & Innovation at Warwick Business School, Wang is in the perfect position to unpick the complex consumer that sits in the east.

Wang says: “People tend to think because they are themselves consumers surely they understand other consumers, but in fact if you’re not careful you tend to produce lots of bias. One of which is that consumers are consumers so they will have the same needs and desires whether they are in China, Brazil, Russia or the UK and the US, but what my research actually discovered is very different.”

Cultural misconceptions

The common misconception is that after years of isolation from the delights of capitalism, and with money in their pocket, the Chinese will be dying to ape the west in a sort of Darwinian natural evolution of the consumer. They will simply rush to Starbucks and start buying Gucci handbags by the truckload just like their western counterpart.

On surface, this seems to be the case. For example, according to BBC News, about 30 per cent of Burberry’s revenue now comes from emerging markets like China, up from just six per cent sales in 2008 and 13% in 2010. The firm expects to open between eight and ten new stores in China and Latin America as part of its expansion.

Even more impressively, luxury car maker Jaguar Land Rover (JLR) has revealed annual pretax profits of £2.5bn, up from £1.1bn for the same period last year. Overall sales for the year grew by nearly 30 per cent, mainly driven by strong demand from China, which is now the second largest and the most profitable market for JLR.

People think that the evidence that once the Chinese have the money their needs will converge with their counterparts in the west. But Wang’s research revealed something fundamentally different, ie the way Chinese consumers think and what motivates them to buy, and that difference is not simply due to the stage of development, it’s something deeply rooted in their culture,” she says.

“People in eastern societies are embedded in many social relations. They believe that the world is interconnected and pay attention to relationships. In contrast, individuals in western societies believe that the world is discrete and that behaviour can be predicted using rules. Therefore eastern cultures promote holistic thinking, whereas western societies promote analytic thinking.”

What does this mean in their brand choice? “First, the Chinese tend to choose brands that reinforce their social connections. They buy brands to say ‘look, I’m one of us, I want to be liked and accepted’.”

Traditional values

As an expert in innovation, Wang says that these cultural differences between the Chinese and western consumers also have implications for the market acceptance of innovation. The Chinese consumers appear to be more variety seeking and novelty seeking than those in the west simply because they see links between objects that seem discrete to their western counterparts.

“Gift giving is another strong manifestation of the culture in the east. They don’t just give some token gift, you know, like socks at Christmas. They’re giving some really valuable gifts because the value of the gifts symbolises the value they put on the relationships that they want to nurture. The type of gifts might have changed from traditional Chinese luxury goods like gold jewellery and silk embroideries to Rolex watches and Prada handbags, but the culture of gift giving is still intact, and so is the reason for buying.”

Wang, who advises US, British and Chinese companies on emerging market consumer insight, believes companies have to adopt a very different advertising strategy in China.

“If you’re advertising to western consumers you probably try to emphasise individual freedom and achievement, you know, ‘you’re aFreelander in the wilderness’ says Wang. ‘In China it would be more effective to stress the reward of social acceptance, like taking family and friends to an expedition in a stylish Discovery’.

Increasingly, western brands are produced in places outside their home country. Will this affect their value? According to Wang’s research, the answer is ‘it depends.’ “With Nike and other sports brands, consumers are really quite happy with wherever they’re made as long as they’re of good quality and they’re genuine,” says Wang. “They don’t mind the likes of Apple iPhone or Jaguar Land Rover being built in China or other emerging countries either. They are technological brands, they have tangible features and attributes, which you can very easily test and see whether or not they are working.

“But symbolic luxury brands like Prada, Gucci or Louis Vuitton, their value is largely intangible and emotional, and country of origin becomes an intrinsic and inseparable part of their brand appeal. So the authenticity element of the brand image is damaged when you’re not producing it in that country.”

Greater is another subtle difference that western companies have to understand if they are to capitalise on the wakening dragon.

Watch Qing Wang’s short film ‘Understanding Chinese’ at wbs.ac.uk/go/qing

Research by Qing Wang suggests that western companies have a long way to go if they are to really understand Chinese consumers. Ashley Potter investigates

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Understanding Chinese
From Dallas with love

The recent death of JR Ewing actor Larry Hagman reminded everybody of the oil boom of the 1980s, but the Dallas bad boy would have loved riding the new boom in the United States. Shale gas and oil could transform the energy industry. Ashley Potter talks to Monica Giulietti and David Elmes.

At an energy crossroads

In some ways yes, and in some ways no. Peak oil concerns about a rapid decline in global oil supplies have become more muted with big finds in deeper areas of the oceans, production being restored after conflict in Iraq and oil now produced commercially from the shale rocks that provided the US with a surge in gas production just a few years ago. But much of this oil is expensive to produce and prices are high. 2011 was the first year where the price of one of the world’s main types of crude oil averaged over $100 per barrel. Concerns about oil are just one part of the challenge that governments around the world face when thinking about their energy needs. Fossil fuels such as coal, oil and gas now have renewable alternatives such as wind and solar. And nuclear has become a politically charged option after the Fukushima power plant in Japan was overwhelmed by a tsunami.

Perhaps the UK could do with some of JR’s no-nonsense talk – at times its new Energy Bill resembles the complexity and controversy of a Dallas plotline. But at least it is an attempt to define a new path for its energy industry and face up to the myriad challenges.

Dr Monica Giulietti, Associate Professor of Global Energy at Warwick Business School, has been following the UK energy prices for 15 years. From 2007 to 2011 customers’ electricity direct debit bills have gone up 24.7 per cent according to the Department of Energy Climate Change (DECC). That is a steep rise and indications are that prices will continue to increase as the government subsidises the transfer to renewable energies. DECC estimates that £110bn of investment is needed for developments that include new nuclear power stations and offshore wind farms.

“For 2004, Britain became a net importer of fuel because oil and gas production from the North Sea has gone down,” said Giulietti. “That is a big problem. The least appealing solution in the long term is that the country is going to have to rely on other countries for its energy.”

Alternative sources

At the moment, the UK imports coal and gas to generate electricity and can also import electricity directly from continental Europe. “The UK’s electricity system has a certain amount of surplus capacity currently around 14 per cent over peak demand. But with the progressive closures of a number of older power stations this is expected to fall to as low as four per cent by 2015, which is a margin we have not experienced in recent history,” says David Elmes, Head of the Global Energy group at Warwick Business School. So if we have another ‘short JR’ moment on TV the UK could have a power cut.

The British habit of using electric kettles to make a cup of tea at the end of a favourite programme is a frequent cause of peak demand. The UK Government set up DECC in 2008 to push the country’s energy industry into action, but it is proving to be a challenge. “This is a difficult and complicated period, where the UK is trying to redefine the relationship between industry and the government,” says Elmes. “What’s needed is clarity, so the country can move ahead and develop its energy industry.

The government is trying to change from three decades of market competition, letting the industry do what they want, to government having a stronger role in telling industry what they want. The UK is becoming a more structured market that is implementing government policy.”

Part of that policy has been to make investment possible in expensive new choices such as new nuclear power stations and offshore wind turbines. Meanwhile, back in JR’s homeland they are forging ahead with oil and gas produced from shale rocks using hydraulic fracturing, or ‘fracking’. Oil and gas in shale has been known of for decades but only recent changes in technology and production processes have made its production economic. Experts now predict that the world’s biggest economy will produce enough oil and gas to become self-sufficient within 20 years. Low gas prices in the US are already seen as helping its industrial recovery, while companies in Europe are complaining that higher energy prices are making manufacturing in the region less competitive. Again, this is forcing the UK to make difficult decisions.

To frack or not to frack?

Fracking involves breaking up the shale by pumping fluids underground. Since fracking near Blackpool in 2011 was linked to earth tremors, UK press stories of earthquakes have added to existing concerns about water pollution and uncontrolled gas releases that have been raised in the US. UK cautious between environmental concerns and encouraging a new source of domestic gas reflects different views within the coalition government.

Elmes believes there are factors why fracking has grown rapidly in the US that may make it less easy in other countries. “The US has benefited from a low price form of gas that has supported their industrial activity and could leave Europe less competitive,” says Elmes. “But it has come at an environmental cost, which has still to be fully understood. The US environmental regulations have been slow to catch up with the technologies involved. There are also several other factors that have encouraged production from shale. In many parts of the US, if you own the land, you own the oil or gas below it. If shale gas lies under your farm, you might become a millionaire. In other countries, resources underground may belong to the government making development more complex.”

The US also has an existing network of pipelines, and regulations that allow access to pipelines. If developers find shale gas they can get it to market fairly easily, they also have an infrastructure with lots of small, local drilling companies who responded quickly to the need for cost-competitive drilling and fracking. That capability doesn’t exist in Europe.

Renewables present political and economic challenges and involve uncertainties, but so does relying on gas – whether imported or produced in the UK from shale. While the UK tries to make some tough choices, the US has jumped ahead with a self-confidence that JR himself would be proud of. Perhaps we’ll see a new US soap full of feuding and fracking called Haynesville, after one of the shale gas regions.
Dane Read is talking about vices. Fortunately he is not delving into the world of Fifty Shades, the Professor of Behavioural Science’s vice is coffee – which is strange because he seems to like tea more.

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Daniel Read’s particular area of interest is what he calls ‘intertemporal choice’: how people make trade-offs between something that has an immediate pay-off to something where the rewards won’t come for a long time. This is when those deadly decisions between a salad and a Big Mac come into play.

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The choice is yours?
Nonmarket thinking

One of those making an important contribution in the field is Kamel Mellahi, Professor of Strategic Management, and Head of the Strategy and International Business group at Warwick Business School. His research is especially concerned with the role of nonmarket strategy in emerging markets.

“It is widely accepted now that good connections with powerful political actors and institutions constitute a critical element of business success in emerging markets, where competition is shaped by nonmarket forces and institutional voids,” says Mellahi. “This makes nonmarket strategy critical for firms operating in both developed and emerging economies.”

Advocates of nonmarket strategy argue that firms need to make the leap from thinking about isolated “non-business” issues and recognise that, together, they form the nonmarket environment of the firm. And yet strangely, the term is not as well known or accepted as it might be. Instead, management attention has focused on individual pieces of the nonmarket environment – such as corporate social responsibility, environmental issues or political lobbying – rather than seeing it as a coherent whole worthy of a holistic strategic response.

Towards a better definition

One of the difficulties with nonmarket strategy lies with its definition. “Any concept that is defined in terms of what it is not – ie nonmarket – is problematic,” says Mellahi. “But alternative descriptions – such as CSR or lobbying – fail to capture its full scope. Alternative terms have also failed to catch on. Perhaps it should be called ‘social and political strategy’?”

What is beyond doubt is that nonmarket strategy is moving up the corporate agenda. As CEOs recognise the increasing pressures they are under from political and social forces, so the importance of a nonmarket response or strategy will increase.

But Mellahi tempers his enthusiasm for nonmarket strategy with some words of caution. “Important as
nonmarket forces are, there can be a dark side to nonmarket strategy. The value of political networks in particular, changes over time."

He uses the example of foreign multinationals in the Chinese automobile industry to illustrate his point. The Chinese central government does not allow foreign car companies to set up wholly owned car manufacturing operations. Instead, they have to operate through joint ventures (JVs) with local companies and can only own a maximum of 50 per cent.

In the 1980s and 1990s, Shanghai Volkswagen Automotive, the joint venture set up by Volkswagen (VW), prospered while other joint ventures created by Peugeot and Chrysler struggled. In part, VW’s success was due to the fact that nonmarket forces (such as demand) dominated the automotive industry in China and VW’s nonmarket strategy was effective. In particular, its ability to embed itself in China’s political networks paid dividends.

But, by 2000, market forces were asserting themselves as demand came increasingly from ordinary private buyers. At that time, VW’s political embeddedness made it difficult for it to negotiate more competitive prices from local suppliers. As a result, VW’s market share collapsed from 50 per cent of passenger cars to 17 per cent in just four years between 2001 and 2005.

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What VW discovered to its cost was that its political ties, which had served it well, became a liability. The first half of the 2000s saw a rapid erosion of VW’s market leadership; its market share of the passenger car segment fell by nearly two-thirds from 50 to 17 per cent in just four years between 2001 and 2005. VW’s experiences were juxtaposed with unsuccessful early entrants such as AMC/Chrysler and Peugeot, and some successful late movers such as General Motors (GM), Honda and Hyundai.

The aim was to see how the value of political embeddedness in local political networks changed as the environment shifted from one that was dominated by nonmarket forces to one that is increasingly dominated by market forces.

In China, the central government is responsible for approving the creation of new assembly JVs, the partners involved and the details of the deal, including the models produced. In the case of Shanghai Volkswagen Automotive, the Chinese partner – Shanghai Automotive Industry Corporation – was essentially a division of the Shanghai municipal government. In addition to the entry barriers this created, which included high tariffs and local protectionism, both central government and local government institutions accounted for the lion’s share of passenger cars consumed in China up until 2000.

Between 1983, when the JV was established, and 2000, VW benefited from its close ties political ties in China, while JVs with other car manufacturers, including Peugeot and Jeep (part of Chrysler), struggled.

Nonmarket strategies over time...

In the search for economic growth, mid-sized companies are often neglected. Des Dearlove finds out how new research co-authored by Stephen Roper is set on changing that.

Growing from the middle

In the search for economic growth, mid-sized companies are often neglected. Des Dearlove finds out how new research co-authored by Stephen Roper is set on changing that.

Much of the business world is fixated on the polar extremes of economic growth – when it comes – will be exploited by entrepreneurs and small and large are seen as the champions of economic growth. The result is that, to stimulate
growth, the policy and media focus on small business has emphasized stimulating growth from entrepreneurs and small and micro firms through grants, a loosening of red tape and making the UK more attractive to big business through corporate tax breaks and relaxing employment regulation.

But there is something missing; the middle. Between the hopeful start-ups and the corporate giants lies a core of middle-sized businesses. And when it comes to growth and employment, mid-sized firms punch way above their weight. Indeed, new research from Warwick Business School shows that mid-sized firms are the unsung heroes of the UK economy – and have been its bulwark in the current recession.

**German for growth**

In some countries, the power of the middle is both understood and celebrated. Most famously, the success of medium-sized companies in Germany – known as the mittelstand – is rightly celebrated. The land of corporate titans such as Mercedes, Siemens and BMW, mid-sized companies are the real engines of growth and prosperity, and have been for many decades. What many people don’t appreciate is that, like Germany, the UK mid-market is a significant driver of both output and jobs. The UK’s mid-sized companies have also proved far more resilient to the current recession than their smaller and larger business brethren.

While the mid-market consists of roughly 21,500 firms, or only about 1.4 per cent of total companies in the country, it contributes 31.8 per cent of private sector GDP. It created 500,000 new jobs in the UK is just as significant, if not more so; mid-market firms employ 10.9 million people, or 36.4 per cent of the UK workforce. On top of that, the much-ignored middle generates annual sales of £78 billion, representing 32.3 per cent of total private sector revenues.

Professor Stephen Roper, Director of the Enterprise Research Centre at Warwick Business School, is the co-author of a wide-ranging report, sponsored by GE Capital, called *Leading from the Middle: The Untold Story of British Business*. The report compares UK mid-market businesses – of which there are some 21,000 – to their German counterparts.

From a structural standpoint, the UK mid-market closely resembles that of Germany, consisting of firms with revenue between £15m and £500m (€20m and €600m). The average UK mid-market firm has revenues of £78m (£98m) and employs 800 people, similar in size to its German counterpart.

“Our research suggests some of the strengths of the UK mid-market. These 21,000 companies had increased their employment in recent years, while larger firms had lost around 700,000 jobs during the recession,” says Roper. “Our study found that mid-market firms have done tremendously well to keep the country afloat during the recession, but they lag behind their European counterparts, particularly Germany, in terms of global exporting. Out of France, Italy, Germany and the UK, the UK came last in terms of percentage of revenue from outside the EU, with just 17 per cent. For German mid-market firms, it is 25 per cent and Italy 30 per cent.

For that to improve the government needs to adopt a holistic approach, providing value added services. Our report discovered that UK mid-market companies are being held back by a skills shortage and a lack of investment in research and development.”

**Driving growth**

*Leading from the Middle* makes compelling reading for policy makers. It provides an array of statistical ammunition for those who champion mid-sized firms.

Despite being only the third largest economy in Europe, the UK mid-market is the second largest in GDP terms after Germany and, interestingly, employs more people than its counterparts in mid-markets across Germany, France and Italy.

Additionally, the mid-market is particularly relevant in light of the current focus on how growth might be achieved more evenly throughout the UK. The mid-market across France, Germany, Italy and the UK is, for example, heavily geared towards manufacturing. Across the four markets, manufacturing represents one-third of mid-market GDP while representing only a quarter of total private sector GDP across the four countries. The UK mid-market is similarly overweight in manufacturing, although this is less pronounced than in Germany and Italy.

As well as playing a potential role in any renaissance of UK manufacturing, mid-sized firms may also hold the key to bridging the UK’s north-south divide. Despite employing more than one million fewer people than large companies in the UK, mid-market firms actually employ more people in absolute terms in the North of England (1.01m) than both large firms (1.64m) and small and micro firms (0.90m). Between 2007 and 2010, the unemployment rate in the North East (10.5 per cent) was more than double the 2.5 per cent increase seen across the country as a whole. That is, for example, heavily geared towards manufacturing. Across the four markets, manufacturing represents one-third of mid-market GDP while representing only a quarter of total private sector GDP across the four countries. The UK mid-market is similarly overweight in manufacturing, although this is less pronounced than in Germany and Italy.

Another interesting aspect of mid-sized firms demonstrated by the research is their ability to span the global and local. In addition, mid-market companies contribute proportionately more GDP and employment outside of London than large businesses, with 71 per cent of mid-market jobs (7.7m) being based outside of London and the South East. This is particularly relevant because of the way UK mid-market companies behave.
the scale and appetite to export and operate globally (41 per cent of UK mid-market companies operate globally), but also remain closely tied to their local communities. In the UK mid-market, almost 70 per cent of suppliers come from the domestic economy, while more than 50 per cent of companies don’t outsource.

Mid-market companies have the scale, structure of mid-market firms, as does their approach to their employees. Mid-market companies are primarily privately owned and, as such, operate with longer-term growth in mind. In fact, between 2007 and 2010, as large companies cut hundreds of thousands of jobs, mid-market companies actually grew employment, ensuring that the surge in unemployment seen since the start of the credit crunch was far less severe than many commentators first expected.

Built to last
The resilience of mid-sized firms during the recession following the financial crisis is perhaps the most eye-catching finding of the research. “We set out to find which UK companies’ employment levels remained stable in recent years by studying the staffing levels of various sized companies, looking specifically at how those levels changed from before the start of the recession in 2007 to the point when global economies started stabilising in 2010,” explains Roper. “What we found may surprise. It was mid-market and smaller companies, not big businesses, which created jobs over this period. In fact, a large percentage of jobs that survived the recession, UK mid-market companies were actually net job creators in the UK. Whereas large firms reduced their payrolls by 692,000 people, or an average of 592 jobs per company, mid-market firms created about 28,000 positions. Given that the mid-market employs more than one-third of the UK’s workforce, it’s easy to see how many mid-market firms reduced their payrolls by 692,000 people, or an average of 592 jobs per company, mid-market firms created about 28,000 positions. Given that the mid-market employs more than one-third of the UK’s workforce, it’s easy to see how many mid-market firms responded to the economic pressure as large corporations did.”

Mid-market companies delivered an even better performance than smaller firms on a business-by-business basis. While small firms created approximately 28,000 jobs over the time period studied, on an average basis, each surviving mid-market firm in the UK created 2.8 times more jobs than a surviving small business. When micro firms (those with less than ten employees) are included in the comparisons, mid-market firms on average created 36.5 times more jobs than micro firms.

The results are perhaps more impressive given the severity of the economic contraction in the UK. Between 2007 and 2010 the UK economy saw the number of people unemployed rise by 872,000. That is more than 50 per cent higher than the increase in unemployment seen in France and Italy, while the German economy actually added jobs over the same period. Despite this, the same number of German mid-market firms created 84,000 jobs over the same period, at a time when that nation’s economy was growing at a much faster rate than in the UK.

Germany’s large companies reduced their employment by less than a fifth of the jobs slashed by UK corporations. This suggests that UK mid-market firms were under far greater pressure to reduce headcount than their German counterparts. The fact that surviving mid-market firms in the UK added any jobs at all during the recession is, in itself, a major accomplishment. Yet, despite its sterling performance, UK policy makers have been slow to offer support.

Helping the middle
If governments accept the importance of mid-sized companies, the big question is what can they do to help that sector? In the UK, one answer is the creation of the CBI British Business Bank. Roper believes the proposed business bank is a step closer to the kind of government backing necessary for UK businesses, but warns that finance alone is not enough if the UK’s growing firms are to match the success of Germany’s Mittelstand. This is a long-term challenge, and the money needs to be backed with expert advice.

“Finance alone is not so much of a problem for mid-market firms, it is more the small firms of 50 to 100 employees who are in need of the money. The mid-market firms need expertise to go with the money. When a venture capitalist backs a company they don’t just provide money, but management and strategic support as well. Medium-sized firms need help in formulating the strategy for growth, they can use this extra finance, and developing the product services that go with them,” says Roper.

“Proposed business bank is very welcome and should make a significant difference to UK SMEs in the longer-term. But it won’t do much to kick-start the economy in the short-term. This is a long-term solution and I think it will be two years or more before any new funding gets to companies.”

“Implementing this proposal will be crucial to its success. The government is proposing to use challenger banks to reach SMEs and these banks will need to develop new capacity to deal with this type of business-facing activity. So, I don’t think we will see any impact from the business bank in this parliament.”

The stakes are high, Roper calculates that policy measures which helped mid-sized UK firms to match the growth of their German counterparts could generate an additional 240,000 jobs over five years.

Knowing more about the middle
Now, Roper is Director of the new Enterprise Research Centre hosted at Warwick and Aston Universities. The £2.9m centre, launched in January, will help develop understanding of the factors that affect, performance and growth. It aims to become a national and international focal point for research, knowledge and expertise on small and medium-sized businesses.

“The centre will research important issues including business ambition, leadership and management, finance, innovation, productivity and exports. Our key objective is to provide policymakers and SME managers with the evidence they need to make good decisions for growth. We have three main ambitions: to conduct and publish exciting and novel research; to provide the evidence for better growth strategy in the UK; and to establish the Enterprise Research Centre as a reference centre for anyone interested in issues around business growth. One element of the work of the new centre will be examining the capacity of mid-sized companies, which Roper says, Roper. There is, it seems, a middle way to growth.

In the UK, the government’s focus on very large and small business is evident; it tends to have direct relationships with the very large companies – the Jaguar Land Rovers and Rolls Royces etc. There is rightly a lot of focus placed on them. After all they are our nation’s largest employers.

Then the small companies get focus, because they are part of either the Chamber of Commerce or the Federation of Small Business, two organisations who do a good job promoting and pulling together very disparate businesses.

In my opinion, mid-market companies have generally been left to their own devices. We hear little from government and are seldom asked for our opinion.

Mid-market companies can suffer from severe growth pains. It is easy for an SME to take a couple of people but a mid-market business might need another 50 people to reach their next stage, and that can be a challenge.

The use of the cost of fuel will affect midmarkets more as they continue to struggle to find adequate volumes of staff they need to develop new markets, to locate in large population areas or places with excellent transport links. But they need land for growth. Our local council has not allocated any land for mid-market companies. In fact, there are no office to buy or rent in our area for 200 people or more. Mid-market companies either have to move or split their site, which is not ideal.

Growing pains
Denys Shortt is a serial entrepreneur and founder of mid-market company DCS Europe, which will this year see sales of £150m. He is very familiar with the jobs and growth challenges mid-market firms face.
Creativity and business are not supposed to mix. The stereotypical corporate world is full of buttoned-up suits and rational decision makers. Even in Silicon Valley, where the tieless, jean-wearing, technological wunderkind emerge as digital entrepreneurs, there is still a sense that disciplined innovation rather than pure creativity begets commercial success.

But, my belief – and experience – is that creativity lies at the heart of business. Creativity – defined as acting in or on the world in new and significant ways – is a powerful and universal force throughout the business world.

There is nothing new in this. Far from the sun-kissed streets of California’s entrepreneurial powerhouse, there was an older, much less appreciated crucible of creativity. The origins of the first explosion of commercial creativity occurred in Britain in the 18th and 19th centuries, during the Industrial Revolution.

The Industrial Revolution was an outpouring of creative juices as much as it was of sweat and blood. Indeed, our modern sense of creativity, with its connotations of newness, originality, invention and progress, was forged in the fields of commerce. Ironically, during the Industrial Revolution the arts and artists became the role models of creativity rather than inventors, explorers, entrepreneurs and industrialists. Romantics such as Blake, Shiller and Shelley became fierce critics of the excesses of the ‘dark satanic mills’ and of the effects of the free market. Their creativity became associated with divine and natural genius, in contrast to the very human creativity of entrepreneurs.

Time and time again, creativity unlocks and
reconfigures the social and economic building blocks of a new era. Throughout history, periods of social turmoil and change are preceded by – or give rise to – explosive bursts of creativity. Think of the Renaissance of the 14th century, the Age of Enlightenment in the 18th century and the Industrial Revolution – or the current digital revolution, for that matter.

The human capacity for creativity is hard-wired to the human capacity for problem solving.

Creatively destroying

The Austrian-American economist Joseph Schumpeter coined the phrase ‘creative destruction’ in the 1930s. Today, it is almost as familiar as Adam Smith’s ‘invisible hand’ as an explanation of the way that capitalism works. And yet, how many times have you heard the phrase without considering the role of creativity in the capitalist mantra? (There is an irony too in the fact that Schumpeter adapted the idea from the writings of Karl Marx, whose motivation was not to applaud capitalism but to destroy it.)

As an example of creative destruction consider post-war Germany. Germany had been ravaged by two world wars in a 30-year period. It was a place of devastation and despair. Yet, there was great creativity. The German economy was resuscitated itself over the next 20 years. Today, at another time of economic crisis, it is the dynamism of the German economy that is propping up the euro zone.

But even in its darkest moments, there was still the light of creative possibility. In 1945 the German playwright Bertolt Brecht, living in exile in California, observed: “It is well known how beneficially people can be influenced by the conviction that they are poised on the threshold of a new age. At such a moment their environment appears to be still entirely unfinished, capable of the happiest improvements, full of dreams and undreamt of possibilities, like malleable raw material in the hand. They themselves feel as if they have awakened to a new day, restful, strong, resourceful. Old beliefs are dismissed as superstitions, what yesterday seemed a matter of course is today subject to fresh examination. We have been ruled, says mankind, but know we shall be the rulers.”

This sense of possibility and renewal is central to creativity. Marx suggested that at times of economic crisis entrepreneurs seek to ‘disturb the equilibrium’. Artists ‘disturb the equilibrium’ by challenging orthodoxies and aspiring to represent a new and different world. Creativity is the opposite of cynicism. That’s why I believe creativity is a business and social imperative for the 21st century. We stand at the threshold of a new era – if we choose.

Creative collaboration

My working and political life has been dedicated to finding ways of physically interacting and participating through dialogue and shared action in public spaces. My spiritual home is in the drama studio or rehearsal room, but it could have been in a craft workshop, laboratory, design studio or other working place of creatively and socially working together. What interests me is how we might do business in ways that are based on socially creative community, cooperative exchange, the collaboration of interests and a keen sense of the common good.

The rights, rituals and motivations of workers in creative spaces offer clues as to how we might do business in other contexts. It is wrong-headed to imagine that the arts, creative work and academia can exist outside of the world of business and markets; that there can be aesthetic and intellectual worlds that are not tarnished or sullied by the touch of Mammon. Or sharpened and invigorated by the same forces. Creativity, in my experience, does not happen in a vacuum.

All cultural organisations are also businesses. Take the Royal Shakespeare Company (RSC), which I know well from their collaboration with Warwick Business School (WBS). The RSC is the world’s largest producing theatre valued for its creative achievements in the artistic sense, but it is also a creative business doing business creatively. The RSC is a company of actors and other artists but it is also a company in the business sense.

The performance of the company is literally measured by the performance of the company. And there are older, more distinguished precedents. It is worth remembering that the RSC’s eponymous patron did not write his plays in a vacuum. Shakespeare was subject to commercial realities. His need to pay the bills, and the discipline it instilled, spurred him on to produce many of his best plays. Much of his material was provided by the creative destruction – political and religious – that he observed around him at that time.

WBS has a partnership with the RSC, which brings creativity and artists into the school to encourage and support the WBS mission to do things differently.
Creativity and doing things differently are, if not identical, then synonymous. Doing things differently suggests a more creative approach to the world of business, but it is also a recognition that we cannot in any sphere of our lives continue as if we are not facing political, economic, social and environmental crises, which may engulf us. We are being battered by Schumpeter’s, now constant, gale.

Open to learning

Personally and professionally, I feel most at home working in drama and theatre spaces, which are open spaces both in terms of how the space itself is used and constantly re-imagined, and open also in terms of knowledge and the outcomes of the creative work that goes on in that space. I am happiest in spaces where there is openness to new ideas; new uses of tools; new levels of trust in others; the possibilities of failure; openness to risk; openness to the unimagined.

This kind of openness, coupled with a sense of autonomy to be self-determining and self-directing is, I believe, a pre-requisite for creative work and invention.

So, how can businesses create such open spaces? Within the notion of open space, there are three concepts or principles.

The first concept is flow. Originally proposed by the Hungarian psychologist Mihaly Csikszentmihalyi, flow is the mental state of operation in which a person performing an activity is fully immersed in a feeling of energised focus, full involvement and enjoyment in the process of the activity. Think of losing yourself in playing music or writing, or in playing a sport. According to Csikszentmihalyi, flow is completely focused motivation, so that the self is immersed in the activity.

Open spaces are usually shared spaces with other actors or colleagues, so there is also openness in terms of how we dwell together in creative spaces. Flow is the desired state that we aspire to.

This raises important questions for businesses. In particular, what forms of cooperation foster social creativity? The mood of learning, working, creating in open spaces is subjunctive – full of possibilities, imaginings, what-ifs, maybes and possible beginnings.

In essence, being in flow is accepting that nothing is pre-determined or set in stone. We – and our business processes – are in a fluid rather than solid state.

The playful attitude

Closely related to flow, the second concept implicit in open space learning is that of playfulness. In my work as a teacher I try to help young people to imagine how they might become, how they might re-imagine themselves, their relationship to others and to the world they share. The key to social transformations on the scale required to meet the demands of the 21st century is in understanding how to utilise in our adult world the playful strategies of children, both with objects and the pursuit of socially playful goals, and in their innate uses of the imagination.

There are connections between children’s uses of play, the play of a company of actors in producing a play, and the possibility that play as an attitude to process rather than as an event may offer a model to other groups intent on creative invention.

In Homo Ludens published in 1938, Johan Huizinga, who later died in Nazi detention, argued that in the pre-industrial age we were all playful as adults as well.
as children and that this playfulness was essential both to invention and to cooperative or political life. In his thesis, the introduction of the factory bell made work serious business. The need for space or time for play.

According to Csikszentmihalyi, flow is most likely to occur when there is a match of high challenge and high skill – when we are stretched by the problem to test the outer limits of our ability. And of course play itself is no fun unless there are obstacles and challenges. But obstacles and challenges are only fun when the consequences of error and failure are reduced and means-ends relations are loosened. So play is also a preparation for the necessity of competition and modulation in creative treating and working. Because there is no penalty in not achieving a pre-determined goal in play, children learn to succeed through constant repetition and modulation. They practice for hours with the same Lego or clay, for instance, in the same way that an artist must practice for hours to create original music.

It is also the case that children’s play, particularly with objects, strives towards increasing complexity. Sennett claims that play is the foundation for craftsmanship which, in a sense, is another word for creativity – using tools in order to fashion ideas into new and original outcomes. Play takes place in the space between people. The child psychologist Donald Winnicott suggests, that in playful encounters, children learn to experiment with the idea of otherness. That the presence of the other, which can be very threatening, becomes in play a delightful source of curiosity and that this curiosity – or disinterested empathy – contributes towards the development of healthy attitudes to friendship and professional life.

One other purpose of the rules of play is to foster the illusion at least of initial equality in terms of power. The informal ties of mutuality and the rule that all players are able to participate more or less equally in terms of age, ability and other differentiating factors. There is no fun in playing with apex predators – there has to be the possibility of a win-win exchange. In play there is a freedom from the self, a disinterest that makes playing sometimes as enjoyable as winning.

All together now

Along with flow and playfulness, the third principle of open space learning is togetherness, or working as part of an ensemble. This is where personal or individual creativity crosses the line into business creativity. The key to creating a secure environment without creating a comfort zone is getting the balance right, in leadership, between protection and challenge. Remember, too, about the balance between challenge and skill. Too high a challenge and workers fail and become disinterested in the wrong sense. Too much protection and they get bored.

My interest in these spaces of flow, playfulness and togetherness is one of sociability and of scale. The scale and complexity of the problems we face are of such a magnitude that they can only be addressed socially, collectively and collaboratively. I do not want to change the world or to work towards creative transformations in society. My humbler mission is to discover whether in open space learning we can model a better way of living, working and being.

Reinventing our worlds

We are all actors driven by events to shape new social, artistic and commercial ideas and responses. We may feel embarrassed or fearful of the idea that we are all actors in a social performance with others. You may want to distance yourselves from jobs and arts, but in our professional lives we are used to the idea of ‘performance’ – we have performance indicators, we have meetings that lead to action, we have performance indicators, we have performance indicators, we have meetings that lead to action, we...
David Cameron is a fan. So, too, are governments, organisations and individuals throughout the world. Steve Coomber meets Nick Chater to examine the concept of nudge, the wonderful world of small improvements.

In July 2010, shortly after becoming British prime minister, David Cameron set up the Behavioural Insights Team (BIT), popularly renamed the ‘Nudge Unit’. The team was set up within the Cabinet Office to explore applications of the nudge concept in UK policymaking. It is chaired by Sir Gus O’Donnell, former head of the civil service, with Dr David Halpern, Chief Strategy Advisor, 10 Downing Street, as its director. Its remit is to ‘find innovative ways of encouraging, enabling and supporting people to make better choices for themselves’. The idea was to find alternatives to the reams of regulations churned out by government.

Nick Chater, Professor of Behavioural Science at Warwick Business School (WBS), is a member of the BIT academic advisory board. “The BIT aims to inform UK Government policy by understanding individual behaviours,” he says. “So very crudely the idea is to take what we know about psychology, rather than just what we know about economics, and use that to drive policy. There are many areas where understanding the psychology of individual behaviour is of critical significance. For example, the kinds of things in the frame of the BIT include issues concerning people’s tax behaviour, how people can improve their health or reduce their carbon footprint. In short, trying to help people lead better lives, not by coercion, but by structuring the environment so that it is easier to do the right thing.”

Nudge, nudge

The nudge concept is brilliant in its simplicity. When Schiphol International Airport in Amsterdam wanted to minimise the unpleasant after effects of a day’s misdirection in the men’s restroom, it came up with an ingenious solution: etch the image of a house fly inside the bowl of the urinal. Instant result: an 80 per cent reduction in spillage. It may seem an inconsequential anecdote, but at its heart is a concept that may help to tackle some serious societal problems, from obesity to unemployment – the concept of a tiny nudge that can make a big difference.

Governments use a range of measures to encourage citizens to engage in certain types of behaviour. They mandate behaviour through rules and regulations, backed up by punishments for non-compliance. They can incentivise behaviour through economic inducement such as reducing or increasing taxation, for example, or through the state benefits system.

These measures have their limitations, however. The level of coercion – what would probably be viewed as heavy-handed government intervention – may just be politically unacceptable. Many people simply do not believe it is the role of government to interfere with the way they live their lives. And people may simply not regard a particular rule or incentive as applying to them. They may not believe that they eat unhealthily, or classify themselves as obese. Even if they do recognise that a rule or incentive applies to them, they may not pay attention to that message, or prioritise action in response to it, because of the many other things that need attending to in everyday life.

Politics also colours what can and cannot be countenanced as a means of encouraging a certain type of civic action. Political parties with libertarian tendencies, that favour small government, want to keep state intervention in people’s lives to a minimum, and avoid accusations of creating a “nanny state”. Ideally, the argument may run from this particular political standpoint, the
market should be trusted to provide a solution. But, say the advocates of nudge, the market won’t always work: sometimes nudges are needed.

Just a little nudge
This is where the behavioural sciences have a role to play. In recent years a number of disciplines – sociology, economics, psychology and the political sciences – have focused on decision making behaviour. Concepts, such as bounded reality – that people must make decisions in the face of severe limitations on time, knowledge and experience – have helped provide a richer understanding of human behaviour. The result is new ways of thinking about how best to achieve social policy goals.

Chater founded the new Behavioural Science group at Warwick. ‘Behavioural science is the scientific approach to individual behaviour applied to understand social and economic phenomena,’ he says. ‘Its methods are, to some extent, experimental. They draw significantly on the neurosciences. They are trying to understand the mechanisms inside individual people and how those mechanisms apply out in aggregate behaviour – so how they affect social behaviour, how they affect markets and the economy at large.’

Some of this new thinking about decision making was captured more quickly in the 2008 book, Nudge: Improving Decisions about Health, Wealth, and Happiness, written by American economist Richard Thaler, Professor of Behavioural Science and Economics at the University of Chicago Booth School of Business, and Cass Sunstein, legal scholar and a Professor of law at Harvard Law School, (and which includes the Amsterdam urinal story). Although the origins of nudge date back to 2003 at least, and an article by Sunstein worked with the Obama administration in the Office of Information and Regulatory Affairs. Elsewhere, nudging found favour with governments, national and local, in countries such as Denmark, France and more recently Australia.

Testing behavioural insights
It did not take long for policymakers to seize on Thaler and Sunstein’s ideas. In the US, for example, Sunstein worked with the Obama administration in the Office of Information and Regulatory Affairs. Elsewhere, nudging found favour with governments, national and local, in countries such as Denmark, France and more recently Australia.

In the UK, the BIT initially focused on areas such as fraud, error and debt, energy efficiency, consumer affairs and health. And, judging by the BIT’s latest annual update 2001-2002, it is making encouraging progress. The team was tasked with meeting three objectives for summer 2002: to transform two major areas of policy; to spread understanding of behavioural insights across Government; and to achieve at least a tenfold return on the cost of the team. The review concluded that all three goals were met. In particular, BIT ‘led six major pieces of work, published four policy reports, and contributed to tens of other policy areas’. It also achieved savings of some 22 times the cost of the team, as well as identifying specific interventions that will save at least £300m over the next five years.

Part of its success can be attributed to the methodological way it approaches making interventions. It has pioneered the use of experimentation and ‘randomised controlled trials’ (RCTs) in public policy, to determine the effectiveness of public policy interventions. Testing initiatives to discover what works and what does not.

In the area of fraud, error and debt, for example, telling late tax payers that most people in their towns had already paid their tax, increased payment rates by 15 percentage points. An RCT with the Courts Service revealed that personalised text messages were six times more effective than final warning letters in getting fines paid. Trials have also demonstrated that, in the area of energy efficiency, offering a loft clearance service to home owners can significantly increase the prospects of the owner installing loft insulation by over a factor of four. Elsewhere, the team is conducting trials focusing on helping people back into work more quickly, supporting SMEs, empowering consumers, encouraging charitable giving through payroll giving schemes and reducing alcohol consumption.

An Antipodean nudge
For the time being the popularity of nudging, and harnessing the power of behavioural sciences in shaping decision making, is on the increase. The specialist know-how of the WRS Behavioural Science group is likely to be in considerable demand. The BIT has recently agreed to export its expertise to the government of New South Wales, Australia, for example. Soon, it seems, most of us will be being nudged, in one way or another, whether we realise it or not.

“Telling late tax payers that most people in their towns had already paid their tax, increased payment rates by 15 percentage points”

In 2008, Greenpeace published a report titled Tinneva Tuna’s Hidden Catch. It contained some unpalatable facts about one of the UK’s favourite seafoods. Most of the canned tuna sold in the UK, out of the 700m tins annual total, was caught by highly intensive purse seine fishing, combined with fish aggregation devices (FADs). It is a method of fishing that not only catches and kills a high proportion of non-targeted species globally – enough to fill the equivalent of nearly one billion cans of tuna annually – but is driving commercial tuna stocks to extinction.

Today, largely thanks to the Greenpeace campaign, most UK retailers are committed to selling sustainably caught tuna. One small business, though, has always been ahead of the shoal. The Reel Fish Co. co-founded in 2009 by Warwick MBA
alumna Angela Fitzpatrick, launched its Reel Tuna range in 2011— a branded, 100 per cent pole and line sustainably caught canned tuna range. Many of Fitzpatrick’s entrepreneurial skills can be traced back to her postgraduate degree. The Warwick MBA changed her life, she says. After a first degree in Latin and English, and 15 years working in sales at blue chip companies, Fitzpatrick wanted a broader perspective on business. “I wanted to know about operations management, management accounting, marketing,” she says. “An appreciation of how it all fitted together.”

Fitzpatrick joined Procter & Gamble (P&G) at Warwick as an MBABer, where she soon gained an insight into all aspects of running a business. Many of her assignments focused on her employers’ Herz. So, for example, as part of operations she looked at a new product—Hers was bringing to market, and the challenges faced by the people involved with the product’s launch. Or when she was studying financial accounting, Herz was introducing Activity Based Costing at the same time.

After her second year, Fitzpatrick took a study break for family reasons. Not long afterwards, she moved companies, first to Whirlpool, then to John West Foods in 2006, where she worked as sales controller. It was while she was at John West that Fitzpatrick began to think about the sustainability issues associated with commercial fishing.

“We were really successful as company during that phase. We were routinely asked for a sustainable option,” says Fitzpatrick. “Although with the issue of doing a pole and line caught canned tuna product, she was unable to make any progress.

Reading the End of the Line by Charles Clover convinced her that it was time for a change. “It is a seminal piece of work which tells you that if people continue to fish without limits, then there won’t be any left,” she says. “When I read the book, I suddenly thought, I cannot do this anymore. I can’t behave in a way that precipitates a situation that leads to the extinction of a species. I’d already reached that position in my head, and the only other reason that it was easier to make the move— I knew that there was an alternative out there.”

The idea for the new business came over a bowl of moules et frites in Chester, with work colleague Bryn Scadeng. If both the chilled and fresh versions of tuna were being delivered sustainably, why not canned tuna? As Fitzpatrick notes, canned tuna is an everyday purchase with 90 per cent household sustainably caught, why not canned tuna? As Fitzpatrick notes, canned tuna is an everyday purchase with 90 per cent household awareness about the issues involved had grown considerably, and labels have moved, or are moving towards, more sustainable tinned tuna products.

Before launching the new product in the supermarkets, Fitzpatrick had approached Asda and involved them in the creation of the product. It was a robust process with the buyer at Asda challenging Fitzpatrick on the rigour of Reel Fish’s sustainability policy. Engaging with retailers in this way ensured that Reel Fish had a stronger product when it finally launched in an Asda store in Wakefield, on July 10, 2011.

**A sustainable future**

It was great timing. Greenpeace had drawn attention to the sustainability issues around tuna fishing and its retail in the UK in 2008 with its report ‘Tinned Tuna’s Hidden Catch’. Public awareness about the issues involved had grown considerably, yet the major brands were still only making limited progress towards supplying a sustainable product in the stores. As of October 2012, Greenpeace reported that although now navigating in the right direction, Princes and John West still had some way to go to meet their commitment to switch to 100 per cent FAO-free and pole and line canned tuna by 2014 and 2016, respectively.

Launching its “real taste” “never from nets” range of solely pole and line caught canned tuna in 2011, The Reel Fish Company was ahead of the curve in providing a branded sustainable canned tuna product. Other stores soon followed Asda’s lead stocking Reel Tuna. “After that we got into the Co-op, Waitrose in September, Tesco in November, Sainsbury’s in January 2012, Morrison’s in April 2012 and then Ocado, August 2012,” says Fitzpatrick.

“Making a change. I knew that the climate was right and consumers were also starting to see this—that it made it a business model,” she says. “Bryn and I thought, right we can do this, it is going to take a lot of work, but let’s go and see what we can do.”

It was always going to be a tough task. The two canned fish giants Princes and John West stood in the path of the new model, fishing, as the name suggests, is simply fishermen on a boat catching tuna with a pole, line and barbless hook. To get the tuna feeding, water is sprayed on the ocean, or baitfish thrown out. Then the tuna are hooked and lifted onto the boat, one by one. Bycatch, minimal.

“Without securing a supply of tuna there was no business, so Scadeng and I suddenly thought, I cannot do this anymore. I can’t behave in a way that precipitates a situation that leads to the extinction of a species.”

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“I suddenly thought, ‘I cannot do this anymore. I can’t behave in a way that precipitates a situation that leads to the extinction of a species.’”
Ready for take-off

Paul Kehoe, CEO of Birmingham Airport, has a bold vision for the airport’s future. He shares it with Ashley Potter

Given his vision to turn Birmingham Airport into the UK’s biggest airport outside of London, nobody could accuse Paul Kehoe of being short-sighted. Nobody, that is, apart from the Royal Air Force (RAF).

The irony for the Birmingham Airport CEO is that if his short-sightedness not been spotted by the RAF, he would be flying planes rather than organising them and transforming the West Midlands hub into one of the business class travellers’ favourite destinations.

Peering through his glasses out of his huge office window and across the airport, Kehoe points to 200 acres of mud that heralds a potential game changer for Birmingham and the Midlands. It will bring a full-length runway, which, with the planned HS2 rail link, could solve Britain’s airport capacity problems and move Birmingham from the seventh busiest airport in the country to the third.

It would be quite an achievement to crown an impressive CV, emulating his father, Reginald, who started as a docker and rose to be manager of Garston port. Thanks to his cousin Arthur, Kehoe got into planes rather than ships – just as well given the demise of the country’s docks.

Arthur would take the then two-year-old on weekly plane-spotting trips to Liverpool Airport – now John Lennon Airport – and though he admits being “bored out of my mind”, a love for roaring jets in the sky was born.

He joined the air cadets and set his sights on the RAF, but discovered all that squinting at the blackboard at West Park Grammar School was not because the teacher had terrible writing.

“I went to Biggin Hill and passed the physical test, but then they discovered I was too short-sighted,” says Kehoe, who now oversees 143 companies, 6,000 staff and 87,000 aircraft movements in and out of the airport. “They said ‘you could probably navigate but your eyesight is pretty ropey’. It was hugely disappointing.”

Instead Kehoe became a professional plane-spotter, as the RAF sponsored him through Leicester University to become an air traffic controller. Stints at RAF Cranwell and RAF Brize Norton sandwiched six months in the Falklands Islands. “It was in 1984 and we were officially still at war,” says Kehoe. “There was no peace treaty; Argentina had just surrendered, so every night we had to park these three-ton trucks down the runway so the Argentines couldn’t land to do a surprise attack. We had tin helmets and gas masks, and I learned how to fire a gun but never had to do it, thankfully.

“We were operating out of the original terminal building at Port Stanley and it had a 6,000 feet metal runway. It was the quickest way to cover the holes in the original, so you could land Hercules and Nimrods on it, plus Harriers and Phantom F4s. It moved every time a plane landed, so occasionally engineers had to move a plate out and put it at the other end.”

After eight years in the RAF and feeling stuck in HR, an MBA at Warwick Business School saw Kehoe come full circle and back to Liverpool Airport. It was one of four airfields he looked after for British Aerospace in the 1990s and unfortunately it had not changed much since Arthur took him plane spotting there in the 1960s – “it was a bit of a dog”.

But that experience propelled Kehoe on a journey that saw him criss-crossing the world like an Airbus, setting

“Our business passengers have gone from 20 to 27 per cent. Manufacturing has softened the blow for us, but other airports are really struggling.”
up Serco Aviation in Canada, Australia and the Middle East before landing as CEO of Belfast International, followed by three years in charge of Luton Airport and, after a brief sojourn running a legal mail service, he was at Bristol Airport for 18 months before finally arriving at Birmingham just in time for the financial crisis and the worst depression in the country’s history.

“It has been a tough time for aviation,” says Kehoe. “The worst four years economically in aviation’s history. Since 1946 there has been a line drawn, with the number of passengers going up. They were big bumps in 1973, 1981 and 2001 and it has come back within six months. Then suddenly, in 2007 it turned down and it hasn’t come back up.

“In the last four years, Britain has lost travel equivalent to an airport the size of Gatwick; 35m passengers have disappeared from the countries’ 25 major airports. Stansted has seen numbers fall from 23m to 17m, Manchester 24m to 18m.

“We peaked over the start of the recession, Kehoe came in and gave us a little lift. We started to grow to 9.6m and then the recession hit us and we lost 400,000 back to 8.7m. We have pulled back since to 9.1m.”

It has been a turbulent time for the aviation industry and some airlines, like BMI Baby, have nosedived out of business. Tourists may have stopped heading overseas, but Kehoe has managed to keep Birmingham pointing at the horizon at least, thanks to the Midlands’ strong manufacturing base. Despite the recession, Kehoe believes we need to keep investing in the airport. In 2012 it was named best UK airport by Which? and by the UK National Travel Award. In 2013 Birmingham was named the best airport in Europe by Which? and it is a place that has been the subject of endless protests, but Kehoe is adamant it would be a huge boost for the Midlands’ economy.

“It is the economy of the Midlands that drives the passenger flow,” says the 53-year-old. “Birmingham is the third most visited city in the UK after London and Edinburgh. You have got Shakespeare, Cadbury World, the Bullring, Selfridges, curries, Warwick Castle, motoring heritage and more. We need to use our funds wisely to market the region and encourage foreign direct investment. And it is working; after London, Birmingham is the biggest city of foreign direct investment. The Midlands’ manufacturing hub is giving us a mini renaissance and HS2 will effectively move the airport 70 miles closer to London.”

Kehoe has overseen the transformation of Birmingham Airport and its revenue streams that now amount to almost £1bn. “We have taken our two separate terminals and merged them into one big one and have got efficiencies from that,” says Kehoe. “Around 30% of our income came from landing and passenger fees, now it is 45 per cent. We have not raised our landing fees for 17 years because the airlines won’t stand for it. We now get 5% per cent from parking, property, retail, and food and beverage.”

Over the last few years £260m has been pumped into the airport and it is investing another £260m to extend its runway, which will allow aircraft to fly direct to the west coast of the US, China and South Africa. What it means is, in 2014, when the new runway will be completed, Birmingham will have the capability to handle more than 70m passengers.

It all points to a bright future, but pulling out of the tailspin of the UK’s recession is dependent on so many outside factors that Kehoe is cautious about the future. “Things are getting better but it is on a knife edge,” says Kehoe, whose enjoyment for speed extends to flying, skiing, sailing and tinkering with a miniature railway in his back garden. “We saw leisure passengers not fly, companies go out of business and three years ago Jaguar Land Rover, which is right next to us, were about to close. But they have turned things around and they can’t make enough cars now. They have been exporting and our business passengers have gone from 20 to 70 per cent. Manufacturing has softened the blow for us, but other airports are really struggling.”

It is a brave move to keep investing in such turbulent times, a situation that has seen the government stall on how to solve the UK’s airport capacity crunch. A myriad of plans have been made, from the so-called Boris Island (after the London Mayor Boris Johnson), to expanding Gatwick, or Heathrow, and even creating a dual-hub between Heathrow and Stansted with a rail line linking them. “The third runway at Heathrow and second runway at Gatwick are both seven to ten years away, while Boris Island is at least 15 years away,” says Kehoe, suddenly looking like a politician. “We have a ‘now’ problem.”

Not only that, but the logistics of building an airport in the Thames estuary or extending Heathrow or Gatwick are huge. As Kehoe points out, to fit another runway at Heathrow would need rail services connecting to a new terminal – it’s sixth – plus widening the M4 and M25, building a town the size of Worthing for 10,000-15,000 workers and their families and subjecting half a million more Londoners to noise pollution.

Kehoe believes Birmingham offers a better solution. Not only that, Kehoe feels Birmingham should be part of a radical move to a multi-hub system that would end Heathrow’s dominance. “We export three million passengers to London to fly Heathrow. Theoretically, Lufthansa could do that at Birmingham, but there is a national trend to support your national flag carrier still. KLM UK tried it but KLM in the end sold that. Air France and Lufthansa are concentrating on their hub strategy because they can become the dominant carrier and that stops others coming in. Until they run out of capacity there, why would they think about investing elsewhere?”

But that’s the point. Heathrow and Gatwick have run out of capacity, so why not use the existing airports, rather than expanding? The endless stalling could force BA or the government’s hand. If it does, Kehoe is busyly positioning Birmingham to take advantage. “I want us to rival Heathrow as a piece of national infrastructure,” says Kehoe. “It was genius to build a railway station 600 metres from us in 1848, but they stopped the runway 400 metres short of full length capability to connect to the world. Twenty years later we are extending it 400 metres, after the council has moved the A45. That buys us about 2,500 miles of range. The Boeing 777, which can only get to Dubai, 4,000 miles away from here at the moment, will be able to take a full fuel load and go the full 7,000 miles. It could change everything.”

Kehoe, who is on the Advisory board of Warwick Business School and is chairman of Marketing Birmingham, knows he will still have to not only “market the hell out of” the airport, but Birmingham and the Midlands as well. “It is the economy of the Midlands that drives the passenger flow,” says the 53-year-old. “Birmingham is the third most visited city in the UK after London and Edinburgh. You have got Shakespeare, Cadbury World, the Bullring, Selfridges, curries, Warwick Castle, motoring heritage and more.”

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A day in the life
Ed Gardiner at the Design Council

Warwick Business School has forged an innovative partnership with the Design Council to bring the benefits of integrated design to business. The Design Council used to be a public body, but is now an enterprising charity whose aim is to bring the transformative power of design to the things that matter. Ed Gardiner has been appointed WBS Behavioural Design Lead, spending four days a week at the Design Council and one at Warwick Business School.

8:50 Ten minute walk to work. Love walking through London, it’s so scenic.

9:00 The Design Council is housed in the fabulous Angel Building, and I always marvel at the classic piece of corporate art in the lobby (Out of the Strong by Ian McChesney). It is meant to be like treacle drawn from a tin and looks really good. I was hired a year ago by Warwick Business School (WBS) to lead the new partnership with the Design Council and am part of both the Behavioural Science group and Working Capital project at WBS, and the Challenges team at the Design Council, so-called because we run national competitions – or challenges – that use design to address society’s issues. We sit in an open plan office, so it’s very sociable.

9:05 Yesterday there was a big meeting with some public health consultants from Southwark and Lambeth Councils. Our project with them – called the Knee-High Project – is trying to understand how design can have an impact on early child development. We are trying to break the vicious cycle between vulnerable parents and vulnerable children by looking at everything from making sure their parents read to them, to nutrition. Simple things like getting enough sleep dramatically correlate with educational attainment.

9:45 I write up the notes from last week’s quarterly steering group meeting for the WBS / Design Council partnership, which we have by video conference. It was the new Design Council Chief Executive John Mathers’ first introduction to the partnership. We talked about how to get Warwick MBA students involved in Design Council projects, a new project on design in the boardroom and the launch of the Behavioural Design Lab.

11:20 Quick cup of tea and then on with a paper, which is introducing the concept of Behavioural Design. What we are trying to do is bridge the gap between academic research and creative problem solving, which is what design is essentially. Combining these things means we have a very strong proposition for the public and private sector to tackle social issues in energy and health, among others.

Lunch is a sandwich at the communal table, which is very large so we can all sit around and chat.

13:30 I call Warwick Medical School because we recently put in a pitch with them and Warwick Manufacturing Group to the BUPA Foundation for a medical research grant. The project looks at how we can design a social media application to use existing social networks like Facebook to ensure children eat healthily. ‘Kids are growing up screen-to-screen, rather than face-to-face, so we are looking how to change behaviours in the long term using technology’.

13:55 I go to a meeting in our fantastic ‘fishbowl’, where you can scribble ideas on the glass walls, about a project with an energy services company looking at how to encourage energy efficient behaviours in the workplace. They heard about Nick’s [Chater’s] work with the Cabinet Office, so they got in touch with the Behavioural Science group.

15:30 I get out of the meeting and send an email to the Cancer Environments team at Macmillan. They have recently agreed to fund a Research Fellow in the Behavioural Science group to look at behaviour change in cancer treatment facilities. It’s our first project under the Behavioural Design Lab so exciting to get the job advert out.

17:30 I switch off my computer and say goodbye. I used to cycle to work when the Design Council was in Covent Garden and I really miss that, but it is a short walk home and then feet up to watch the football after a good day in the office.

“Kids are growing up screen-to-screen, rather than face-to-face, so we are looking how to change behaviours in the long term using technology”
City guide
Mumbai

Niti Shah, a graduate from Warwick Business School’s MSc in Marketing & Strategy, shares some of her favourite haunts in the melting pot that is Mumbai.

Mumbai is the most populated and wealthy city in India, and its commercial and entertainment capital. Generating five per cent of India’s GDP, and handling 70 per cent of capital transactions to its economy, Mumbai is home to financial institutions including the Reserve Bank of India, the Bombay Stock Exchange and the National Stock Exchange of India. The city also houses India’s Hindi (Bollywood) and Marathi film and television industry. The city was renamed in 1996, changing from Bombay, with the new name coming from the goddess Mumbadevi.

Favourite restaurant or bar
Woodside Inn [1] at Colabe is open until midnight and specialises in pizzas and burgers. Cafe Leopold is also a good place for a night out. Out of the Blue in Bandra serves European and Italian food and is great for chilling out and business meetings. Since it’s an open-air restaurant it is best to visit in the evenings. The terrace bar at Gadda Da Vida, at the Novotel Juhu Beach, overlooks the sea and is ideal to enjoy a drink at the end of the day.

www.woodsideinn.in
www.leopoldcafe.com
www.outoftheblue.in
www.novotel.com

Good for a business lunch
Mainland China [2] is great for a business lunch, serving delicious food like sizzling eggplant with spicy tomato garlic sauce and steamed sea bass with soy and ginger.

www.mainlandchinaindia.com

Best time of the year to visit
November to February is best, when the city is not so hot and humid. I love Mumbai during the monsoon in July, as long as you don’t mind the mud and traffic snarls.

Where to shop
Colaba Causeway: the ‘Culture Square’ of Mumbai is great for cheap Indian-style bags, shoes, clothes and accessories – perfect for shopaholics. The Bombay Store in Colaba has unique ethnic items. The best shopping malls are Palladium, Phoenix Mills and Infinity Mall in Malad. On Linking Road in Bandra there is also a huge market, famous for having everything!

www.mainsdehriin
www.leopoldcafe.com
www.outoftheblue.in
www.novotel.com

Best place to chill out
For stand-up comedy and gigs the Comedy Store Palladium is good. For plays, there is the National Centre for the Performing Arts in the south and Prithvi Theatre in the north. Shiro is a good lounge-type pub, while Café Mondegar is also great to relax with a couple of beers.

www.ncpamumbai.com
www.prithvitheatre.org
www.shiro.co.in

Sights not to miss
If you really want to soak in Mumbai, a detour around the south Mumbai is great, especially Colaba, Fort – the business district – and Churchgate. A walk to the Gateway of India is a perfect way to get to know the city. Many go to the Marine Drive promenade for morning and evening walks. Bandra Bandstand Promenade features the Walk of the Stars, a 2km stretch honouring Bollywood film stars, and is where many celebrities live and stay so keep your eyes open!
Life in London is a vibrant cosmopolitan affair and Sarah Zareian, a graduate of the Warwick MBA, shares some of her favourite places in The Big Smoke.

“As long as I gaze on Waterloo sunset I am in paradise”
Oh, the immortal words of The Kinks’ wordsmith Ray Davies. Everything in London is beautiful at sunset, but there is plenty to do any time of day or night, and all year round, in the UK’s capital city. London is home to three of the world’s Top Ten museums and galleries, has 850+ art galleries and 170+ museums. There are over 17 000 musical performances and 250 festivals, including Europe’s biggest street festival – the Notting Hill Carnival – which attracts nearly one million people every year.

City guide
London

Favourite restaurant or bar
Hix is a fabulous British restaurant, think dark woods, an air of history without being stiff. It also has a super cocktail bar: Mark’s Bar – downstairs which is a real hidden gem! I also really like a place called the Experimental Cocktail Club for cocktails, but it’s very popular so best to book in advance.

Where to shop
I shop around Bond Street. It’s easy for me to get to and I like to have the fresh air when shopping. There are enough shops for shopping for work clothes and plenty of shoe shops, what more could any woman want?

The Great British Pub
There are some fabulous old pubs to try out in London, including my favourites The HollyBush and The Freemasons Arms both in Hampstead. Proper beer, nice food, comfortable seats and a warm welcome. Lovely!

Where to relax
I love Primrose Hill. It’s breathtakingly beautiful and you can take some time out to relax and enjoy the greenery and slightly bohemian atmosphere. I also recommend Hampstead Heath on a sunny day. Although its only six kilometres from Trafalgar Square, it is beautiful countryside with lots to do: there’s a zoo, an athletics track, an education centre, three swimming ponds and a lido!

Where to go
Taking afternoon tea
For a very special occasion I really recommend afternoon tea at the Savoy or Claridges. Dainty sandwiches, exquisite sweet pastries and the finest tea, coffee or hot chocolate – and perhaps a dash of bubbly!

A bit of culture
Although London is famous for its West End where there are theatres with big blockbuster shows, I prefer The Almeida – a 325 seat theatre in the heart of Islington, North London that has great intimacy, everyone feels like they get to know the cast really well.

Sights not to miss
The Shard is the tallest building in Western Europe at 310m (1,016ft), and is a real multi-use building with offices, apartments, a 5-star hotel and, of course, The View From The Shard – London’s highest viewing gallery offering 360 degree views. Tower Bridge by the river is beautiful by day and by night, and if you check their website you can coincide your visit to see the bridge opening up. Also, everyone should have a go on the new Emirates Airline (cable car) which runs between North Greenwich and the Royal Docks – the view is excellent! The timetable and booking is available on the Transport for London website.

www.almeida.co.uk
www.hixsoho.co.uk
www.marksbar.co.uk
www.experimentalcocktailclublondon.com
www.tfl.gov.uk
www.the-shard.com
www.theviewfromtheshard.com
www.towerbridge.org.uk
www.hollybushhampstead.co.uk
www.freemasonsarms.co.uk
www.primrosehill.com
www.fairmont.com/savoy-london
www.claridges.co.uk
www.sanfordbrown.co.uk
www.emiratesairline.com
www.wfa.co.uk
The five books I have chosen indicate my long-time preoccupation with what philosopher Stephen Toulmin called “the ecological style of thinking”. I love these five books for their intellectual breadth; their holistic approach and the subtle appreciation of context, agency and process they manifest; their philosophical underpinnings and the moral vision of life they offer.

The book that expanded my horizons

Mind and Nature

Gregory Bateson

Gregory Bateson was so many things: an anthropologist, a psychiatrist, a biologist, a cybernetician, a philosopher. His Mind and Nature has been profoundly inspiring for me. He shows the “materialism” that underlies the apparent diversity of the world, the necessary unity that connects all living beings. His metaphorical patterns consist of relations, connections and differences – everything that connects “the crab to the lobster and the orchid to the primate and all the four of them to me. And me to you. And all the six of us to the amoeba in one direction and to the back-ward schizophrenic in another”. Reading Mind and Nature you cannot but begin to think holistically, notice patterns, draw creative analogies, appreciate complexity and beauty. Your horizon expands, your sensitivity is heightened.

The book that was my doctoral studies companion

Decision and Control

Stafford Beer

I was fortunate to have had Stafford Beer as my teacher during my doctoral studies in the late 80s. Like Bateson, Beer was a polymath: an operational researcher and cybernetician, with a strong interest in philosophy, biology, poetry, mathematics and management. His Decision and Control was a rigorous argument for paying serious attention to complexity and its management, long before complexity science appeared. The book reflects the 60s optimism that by thinking systematically we can better handle social, economic and management problems than by thinking about them in disciplinary silos. Beer is not preoccupied with technique, but with the sort of thinking needed to cope with complexity. His motto is Ashby’s “law of requisite variety”: only complexity can cope with complexity. His emphasis on modelling and the rigorous use of analogues (such as the human nervous system) was inspiringly generative in the natural and the social sciences depends a lot on making and exploring analogies. Both Bateson and Beer made me see that metaphors are not mere rhetorical ornaments but knowledge generating devices.

The most inspiring book in my discipline

The Social Psychology of Organizing

Karl Weick

I regard this as the most inspiring book in my discipline - Karl Weick’s The Social Psychology of Organizing. Published in 1969, it has been the most powerful and eloquent plea for putting process right at the centre of studying and managing organisations. Weick does not simply advance an argument, but changes the entire language of discussion, instead of talking about ‘organisations’ he insists on ‘organising’. It is not that he denies the reality of organisations but he notes that what we label and experience as ‘organisations’ (notice the inverted commas) are products of human action. ‘Organisation’, he argues, should be seen as an emergent phenomenon; it emerges from the coherent and coordinated interaction of several individuals. Similarly, there is no such thing as “the environment”. The latter, more appropriately, are “enacted environments” – human constructions, individuals in organisations act and in doing so, they create the materials that become constraints and the opportunities they later face. Organisations talk to themselves to find out what they think. Weick is well known for the statement that more than any other defines his work. “How can I know what I think until I see what I say?” Weick’s book is impressive in the intellectual resources he draws on - ethnomethodology, cognitive dissonance, psychology, evolutionary theory, systems theory, phenomenology and pragmatism. The book is full of novel insights, playful cartoons, and counter-intuitive arguments. It is even poetically elusive at times. Weick does not hesitate to mobilise poetry (eg Cavafy’s “thlakko” to offer the reader additional insights; he does not want merely to demonstrate the validity of his arguments but to carry the reader along. His advice to practitioners (“Complicate yourself”) is as brilliant as it is timely.

The book I always recommend to students

Change

Watzlawick, Weakland and Fisch

A book I always recommend to students is Weakland, Weakland and Fisch’s Change. I detect doubt when they see 1974 as the publication date, but it is a classic book as relevant to understanding change today as it was when it first appeared. The book is an impressively rigorous, it is friendly with the familiarity of examples it discusses. Its authors are psychotherapists who - drawing on Whitehead and Russell’s “theory of logical types”, Wittgenstein’s philosophy, Ashby’s cybernetics and an impressive array of other authors, including novelists and poets – offer a way of understanding the paradoxical quality of change in social systems and to the back-ward schizophrenic of us to the amoeba in one direction to the lobster and the orchid to the primrose and all the four of them to the lobster and the orchid to the primrose and all the four of them.

The book that made me understand the quest for the good life

After Virtue

Alasdair MacIntyre

The book that made me grasp the language-dependent character of social practices, the philosophical underpinnings of the social sciences and, more crucially, the close relation between moral philosophy and the social sciences, was Alasdair MacIntyre’s After Virtue. It makes a subtle and complex argument for a return to Aristotle’s ways of understanding social life. MacIntyre’s philosophical argument furnishes us with a potentially sociological understanding of morality. To the extent virtues are firmly grounded in communities (or social practices), he invites us to pay attention to the “internal goods” social practices are set up to organise people through, and the “standards of excellence” that regulate their functioning. Virtues are no mere “cardinal states” or human qualities acquired in the context of social practices, the possession and exercise of which helps us achieve the goods external to our practices. MacIntyre offers a vision of “institutions” as potentially threatening social practices (and the associated goods) and in doing so, suggest that there is a critical emphasis on “external goods”, such as fame, wealth, social status etc. MacIntyre opened my eyes to the importance of Aristotle’s philosophy and his notions of phronesis (practical wisdom), judgement and the role of the emotions. Reading MacIntyre’s book and through him, Aristotle, one becomes sensitive to the importance of virtues for sustaining social practices and the quest for the good life.
A life line for Kenyan babies

R
ows and rows of incubators stood before Dr. Gerry McGivern, Associate Professor of Organisational Behaviour. More than 20 of them packed into a room and when he looked closer there wasn’t just one baby, but two in each one. In another ward, a doctor was using an oxygen mask to revive an hour-old baby. In all more than 60 babies were stuck wriggling and squirming in incubators and plastic cots. The memory of the complicated but ultimately joyful birth of McGivern’s now two-year-old son flashed through his mind. There was no joy here. Just a strange hush filled with the tension of life struggling to survive. This was a major public hospital in Kenya, 2012.

As he left that neonatal ward, McGivern knew he must help. And after years studying and researching the organisation of the UK’s National Health Service (NHS) he knew he could. McGivern arrived in the country during a national strike of Kenyan doctors over the state of public healthcare. The strike made things worse: already short of medical staff, Kenya’s government fired 1,000 of the 2,000 striking doctors (although they have since been reinstated). At least two patients died due to lack of treatment during the strike, according to union officials.

With no doctors around, any birth complications meant no chance of survival for babies and huge risks for mothers. Most stayed at home to give birth; some went to witch doctors for help. Yet the government claimed health facilities coped well without the striking workers.

Suddenly, the problems and controversies surrounding the NHS paled into insignificance. This was a real crisis in public health – people and babies literally dying because of a lack of doctors, equipment, facilities and organisation.

There was not much McGivern could do about the lack of doctors, but he knew his expertise on the NHS’s organisation and management could save lives. “Many of the babies I saw that day will have died,” says McGivern, now back at Warwick Business School (WBS). When I walked into that ward, I was thinking this could be my son, it could be him. I realised how lucky we are that he was born in an NHS hospital. You come away thinking if there is any important work to do it is this: if you can make a little bit of difference you can save babies’ lives.”

Pouring out

McGivern had already been to Malawi helping Warwick Medical School train clinicians, so when he was contacted by the KEMRI – Welcome Trust Research Programme about a project to improve paediatric and neonatal care in ten Kenyan hospitals, he jumped at the chance. The English trust works with the Kenyan Ministry of Health to improve care for children, and they need McGivern’s organisational expertise.

“Malawi is a really poor country but they do have a public healthcare system,” says McGivern, an Associate Professor of Organisational Behaviour at WBS. “Kenya has one as well, but I heard stories about children being denied with cancer who could have been saved by hospital treatment, but because their parents had no money had to go home to die. You have to pay an entrance fee.”

With a strike and appalling conditions, McGivern says morale among doctors and nurses is understandably at rock bottom. They need McGivern’s organisational expertise to bring some academic ideas into practice,” says McGivern. “You see those babies lined up in incubators andasics. They pour out just as fast as they pour in. I don’t know the answer. One doctor said to me, ‘every seven babies die on me one day and at that point I had to disassociate myself from it all’. Many doctors have given up thinking if there is any important work to do it is this, if you can make a little bit of difference you can save babies’ lives.”

McGivern won’t be able to work miracles and turn things into Africa’s version of the NHS. Kenya spends only two per cent of national income on public healthcare, a quarter of the amount in the UK, and national income per head is Kenya is one twentieth of that in the UK. But he believes better organisation can help. “Compared to the British NHS, public healthcare in Kenya is shocking,” says McGivern. “But it could be slightly less shocking if better organised. In Kenya, and Malawi, many of the biggest problems are organisational ones. It is about taking and adapting proven ideas from healthcare services being used in the UK to improve African healthcare.”

“You are never going to solve all the problems, but you can make it slightly better. That is why I want to get more involved in this Kenyan project, because they are trying to bring evidenced-based best practice to how you treat babies and children; see how that makes a difference.”

“This project will measure clinical outcomes. They will say to the hospital ‘x per cent of the kids you were treating died this week, is there anything we can do to make it better, did you follow this guideline?’

“The idea is for me to bring some organisational expertise to that. It is basically supporting people, developing clinical leaders and trying ideas we have seen work in the NHS.”

Of course, there are rays of hope even in the Kenyan public healthcare system, inspiring doctors trying desperately to fight against a tsunami of poor practice. “I met a great Kenyan consultant paediatrician. She is trying to make things work, trying to bring in best practice, trying to bring in best practice guidelines,” says McGivern. “She is saying to clinicians when a kid comes in and is dehydrated, get some liquid in them so they don’t die, you did know that didn’t you?”

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Over the last 15 years Apple has revolutionised the personal electronics, telecoms, computer and media industries through a string of blockbuster products that offer unique, designer, integrated customer experiences. In the process, Apple helped to accelerate the blurring of industry boundaries and position itself in a way that it exerts significant bargaining power over both consumers and industry players, with outstanding performance results. Apple is the most valuable listed company with a market value of $600bn in mid-October 2012, having gathered the highest accumulation of cash and liquid reserves ($117bn in June 2012) of any listed company. And it regularly achieves net margins above 20 per cent in industries where most competitors achieve single-digit margins.

The chief architect of the business model and value system that led to this exceptional performance is widely acknowledged to be the late Steve Jobs. With Jobs’ passing in October 2011, many wondered whether the magic at Apple would last, or gradually fizzle out.

My research suggests that the magic will last, at least in the medium term. This is not only due to clear and consistent strategic choices which have served to institutionalise the Apple way, but also due to the fact that Apple has pursued a strategy that is both rare and incredibly difficult for competitors to imitate.

Quantum physics
A key aspect of Apple’s strategy is the ability to balance intense efficiency in operations (in fact the highest efficiency levels in its peer group) with outstanding serial innovation and addictive product design, both of which command premium pricing and redefine markets. This combination defies conventional wisdom, which maintains that if a company’s competitive advantage is based on intense efficiency and value, it won’t invest beyond what’s necessary in innovation, design or service, and in fact will strive to cut costs everywhere along its value chain so as to align these elements with its strategy. Conversely, conventional wisdom holds that a company competing on innovation, outstanding design or service excellence will not be able to reach intense levels of efficiency since these capabilities are costly to develop and maintain. Apple has accomplished serial innovation and outstanding design in terms of its offerings and its own business model, as well as simultaneous cost leadership, having become more efficient than the traditional cost leader, Dell.

Apple has achieved its outstanding performance through effectively implementing an unconventional strategy: differentiation through innovation (along various dimensions that include serial, strategic and incremental innovation), with simultaneous intense levels of efficiency, leading to the lowest costs in its peer group.

Solving the quantum puzzle
Apple has achieved its outstanding performance through effectively implementing an unconventional strategy: differentiation through innovation (along various dimensions that include serial, strategic and incremental innovation), with simultaneous intense levels of efficiency, leading to the lowest costs in its peer group.

Conventional wisdom – most
It was celebrated as America’s most innovative company by Business Week for seven consecutive years (2005 - 2011) and has topped Fortune’s world’s most admired companies for the fourth year in a row (2008 - 2011), Apple’s design prowess, and ability to seamlessly integrate hardware and software while attracting the best people, is widely recognised.

Apple’s reputation for exceptional innovation is widely appreciated. It famously set out by Michael Porter – holds that such strategies would be impossible to achieve in a long-term, sustainable timeframe because they entail mutually contradictory management, organisational processes; and that companies that try to achieve them would end up making choices about which generic strategy firms to eventually make a clear and swift strategic decision.

Hard, within a corporate culture where innovation is second nature. Add to this the “holistic collaboration” approach made possible by the fact that Apple’s innovation is centralised in a single place and house - its campus in California - and you have an innovation hotbed. Burrell your most creative people through clever, contrarian maverick branding, supported by actually coming up with innovation that Apple’s innovation is centralised in a single place and house – its campus in California – and you have an innovation hotbed. First, Apple aims largely for breadth of the product line preserves product features.

Third, the simplicity in the design allows higher pricing control and customer capture. Historically, Steve Jobs’ leadership – demanding perfection, visionary flair – you can develop a cult following. Control the customer experience and create barriers to entry for competitors and barriers to exit for customers through developing constellations rather than stand-alone products, and you can control the market price. Apple chose not to produce printers and scanners, for example, given the narrow margins and low unit potential. Rather than offering several models of the iPhone with an array of different configurations, Apple offers one main model of the iPhone which is regularly updated.

Fourth, Apple’s own organisation design is flat and bureaucracy is eschewed. As Jobs explained, “is organised like a start-up. One person is in charge of iPhone OS software, one person is in charge of Mac hardware, one person is in charge of iPhone hardware engineering, another person is in charge of worldwide marketing, another person is in charge of operations.” Apple retains control of the functions that are core (design and innovation), while outsourcing the functions that can be provided by others more efficiently (manufacturing).

As with other elements of its strategy, Apple has ignored popular pronouncements that companies should locate their R&D facilities around the world, near their main markets, and engage in global transfer and scaling. Apple’s approach is instead to centralise its innovation taking place in a single space, the magic courtyard at One Infinite Loop in California. By hiring the best and co-locating them in the innovation melting pot of Apple’s infinite loop, Apple achieves extraordinary results, with only a fraction of innovation spending related to manufacturing. As the same time as it is acknowledged to be the most innovative company in the world.

Innovation is only one part of Apple’s quantum strategy. What is harder to understand, is how all this can be done at a level of efficiency that is superior to that of the traditional cost leader, Dell.

Cook’s controls

Efficiency was a major goal of Steve Jobs when he recruited Tim Cook in 1998 from Compaq to be Apple’s chief operating officer. Cook was instrumental in driving efficiency by streamlining Apple’s manufacturing processes, supply chain and distribution operations. Soon after moving to Apple, Cook rationalised the warehouses and finished products, reasoning that “if you have cloisters, you’ll fill them up”. He also cut the number of key suppliers from too to 24, enhancing Apple’s bargaining power with these suppliers; and asked them to set up near Apple’s facilities so that components would be deployed just-in-time and manufacturing time slashed.

However, what is not widely recognised is that Apple’s efficiency is as much due to strategic focus and simplicity, as to supply chain rationalisation. Apple focuses in terms of target market, of product line, of product design and even in terms is own organisation. First, Apple aims largely for breadth of the product line preserves management attention, facilitates breadth of the product line preserves management attention, facilitates

Second, the narrow depth and breadth of the product line preserves management attention, facilitates marketing and increases negotiating power over suppliers. Apple chose not to produce printers and scanners, for example, given the narrow margins and low unit potential. Rather than offering several models of the iPhone with an array of different configurations, as for example, Nokia or Sony Ericsson, Apple offers one main model of the iPhone which is regularly updated.

After Jobs returned to Apple in 1997, he terminated two-thirds of development projects, since he judged them as not having the potential to deliver groundbreaking products. Jobs exclaimed in the first management meeting after his return, which he attended in shorts and sneakers and bearing stubble, that Apple was in trouble because the products had to ‘sex’ any more.

Third, the simplicity in the design and features of the products that Apple does produce. The designs are both streamlined and limited in number, and include only a few features that buyers will actually use. In making these difficult choices (of what to focus on and which features are best to include out of the hundreds of potential features), Apple becomes both aligned with its customers’ usage patterns, increasing value for the consumer, whilst at the same time decreasing the cost of production through simplicity in design and rationalisation of features.

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Söhnke M. Bartram is a Professor of Finance at Warwick Business School (WBS) and a Fulbright Visiting Scholar at UCLA Anderson School of Management. Prior to joining WBS, he held faculty positions at Lancaster University and Maastricht University. He is a member of an international think tank for policy advice to the German government.

Des Dearlove: How did you first get interested in finance?
Sönke Bartram: I got into finance by accident. I was studying business administration and there was no finance course available. I graduated and wasn’t really sure what to do. I went to job interviews to do consulting work. McKinsey said I was too young and that I should do a PhD. Then, an opportunity came up at a private business school in Germany to do a PhD in Finance.

The focus of my PhD was macro economic risks and how they affect stock returns. That was about ten years ago.

That’s a topic that’s become even more relevant. Absolutely, and I also worked in asset management where macro risks are currently very important. If you want to pick stocks it’s very hard at the moment because the relative attractiveness of stocks is less driven by fundamentals, and more by macro-economic factors and how they affect returns.

So that became very relevant and I have been able to contribute to that debate. But at the time my interest was actually motivated by a research paper I had read. There’s a paper by Philippe Jorion in The Journal of Business. It looks at US multinational firms.

So these are the biggest firms in the US that have the most exports, the most foreign trade and you would think that if any firms should be affected by exchange rate movements it would be these, right?

However, out of 287 US multinationals only 5.2 per cent had a significant exchange rate effect at the five per cent significance level. So that means basically, it could be driven by chance. There was no systematic effect that he could find.

You are talking about big multinationals, such as General Electric and General Motors?
Yes, the big US companies that have the most foreign sales. The effect of exchange rate fluctuations on purely domestic companies without any foreign imports, and that are just selling locally, is less obvious. However, the firms in Jorion’s study are companies that you would expect to be affected given their foreign business activities, so the lack of an empirical effect was a really big puzzle. It’s called the foreign exchange rate exposure puzzle.

So what explains it?
We published a paper called Resolving the Exposure Puzzle, in which we show something that people had suspected for some time – that companies are hedging.

That’s really hard to show because stock returns encapsulate a lot of effects. So we had to look below the level of the stock return to understand what was going on.

What is going on?
Where a company is exposed to exchange rate risks, but has no expertise in forecasting where the euro or the dollar is going, then it’s actually good for them to reduce their exposure. And our research showed that companies actually do this.

And they’re doing this in an organised, managed way rather than just being the effect of being a multinational that you’re automatically hedging?
That’s a fair point. You would expect that if you’re a big multinational and you’re selling to 23 countries, say, around the world there’s some diversification effect, right? Because the currencies move in different ways. But that’s not the main effect. You can be a domestic company and still be exposed to currency movements if you, say, have big competitors in Japan who are importing into your market. If the exchange rate moves in their favour, they sell their products cheaper in the local market and you have to adjust your pricing, even though you may not be selling or sourcing abroad.
When considering more regulation of derivatives we should avoid throwing the baby out with the bath water

The data showed that firms don't reduce all of it, but that's explained by the fact that the exposure is very hard to measure; but firms reduce so much of the exposure that what's left is almost negligible in stock returns. It's very hard to quantify and it's difficult to explain. The exposure puzzle is that it's not that big multinationals aren't affected by currency risk; it is that they're affected, they're aware of it, they know that if a firm exposes itself it can hurt the company and the value of their shareholders, so they reduce it to levels that reduce the danger and make it safe.

Some of your research has also looked at drivers of stock market volatility. How do countries with high stock return volatilities differ from other countries? Tell us more about this, please? Yes. Financial market regulators are concerned about the volatility of financial markets and what's driving it. We have seen the flash crash and that trading effects can cause volatility in markets, and regulators are investigating to see what happened and whether more regulation is necessary. What we looked at was volatility of stock returns at a lower frequency and we compared US firms to foreign firms.

Obviously, these firms can be very different and so they may not be a direct comparison. You want to compare apples with apples, not apples with oranges, and so we picked firms that, for instance, were the same size, same industry and so forth. We found that diversified firms that had a bigger exposure to currency risk were more volatile or may be firms in particular industries would be more volatile — so pharmaceutical companies may be more affected by currency risk than companies that are more dependent on domestic markets and compete directly with foreign firms.

That's the point. They could do either. It's a double-edged sword. So these are just ordinary corporations not banks or financial services?

Yes, these are non-financial corporations that are effectively banking and finance companies. We looked at how the use of derivatives by 80 per cent of non-financial firms around the world helps to manage risk. The data showed that firms don't reduce all of it, but that's explained by the fact that the exposure is very hard to measure; but firms reduce so much of the exposure that what's left is almost negligible in stock returns. It's very hard to quantify and it's difficult to explain. The exposure puzzle is that it's not that big multinationals aren't affected by currency risk; it is that they're affected, they're aware of it, they know that if a firm exposes itself it can hurt the company and the value of their shareholders, so they reduce it to levels that reduce the danger and make it safe.
The digital treasure trove

Business is a magpie science. Business people are, after all, pragmatists and opportunists – they have to be. They are willing to pick up and polish a nugget of information or inspiration no matter what its source, so long as they believe it helps deliver a competitive advantage. Over the last century, the world of business schools has been informed by sociologists, economists, psychologists, philosophers, anthropologists and many more. But physicists?

Dr Tobias Preis, Associate Professor of Behavioural Science & Finance at Warwick Business School, is a physicist by background in computer science. My PhD gave me the chance to bring all these different disciplines together, to try and understand the vast amounts of data generated by the financial world. So everything I’m doing today is hugely interdisciplinary, involving large volumes of data."

In the era of big data, Preis’s research looks at what he calls the “digital traces”, the digital detritus, the granules of information and insight we leave behind in our interactions with technology and the internet in particular. His research is probably best described as “computational social science”, an emerging interdisciplinary field which aims to exploit such data in order to better understand how our complex social world operates.

Positive traces

One intriguing source of information used by Preis’s research is Google Trends, which tracks people’s Google searches. The service is publicly available. Type in Christmas and you will see predictably yearly patterns for people’s searches (www.google.co.uk/trends/explore#q=christmas). “It’s a tool which provides you with information about human behaviour on a very large scale, describing behaviour across all the countries in which Google operates – over 200 worldwide,” says Preis. "With my collaborators, I became interested in whether we could use these digital online traces, which capture aggregated human activity, and in particular how we can use these information to improve our understanding of financial markets."

Along the way, Preis and his colleagues, Helen Susannah Moat and Steven Bishop at UCL and H. Eugene Stanley at Boston University, uncovered an intriguing link. The Google Trends data allowed them to look at a national breakdown of what people search for online. They asked: do people from certain countries tend to look to the future - by keying in searches using next year’s date - more than others? “Some countries are more future-oriented than others. If you just calculate the sum of all searches for the next year, for example 2017, versus all searches for the past year, for example 2016, then you have a ratio which we call the Future Orientation Index,” explains Preis. “If we plot this index against the GDP per capita in all the countries we analysed, then we find a strong correlation between both quantities. This suggests a relationship between the ratio of future-oriented searches to past-oriented searches and the economic success of a country.”

The online search data throws up other extremely intriguing results. For example, Preis, Moat and colleagues have found that the more people search for “stock”, the more likely they are to have sold their shares at a lower price a week later. Similarly, in 2013 Preis and his colleagues showed that there is an almost linear relationship between the number of internet searches for company names and transaction volumes of the corresponding stocks on a weekly time scale. If more people are Googling Apple, for example, the trader is also likely to be trading Apple. These new, big data resources, can provide new insights into human behaviour and the economic success of a country.

"These new sources of data can predict human behaviour. The events of the world are Googled before they happen."

Investors are not disconnected from the world, they’re Googling and using various platforms and services to collect information for their decisions. In effect, these new sources of data can predict human behaviour. The events of the world are Googled before they happen. The next challenge for these researchers is to be able to identify key words and phrases at the time they are being used rather than historically.

The risks of diversification

Preis’s fascination with big data and financial markets also led to his involvement in a study of the US market index, the Dow Jones. His research analysed the daily closing prices of the 30 stocks forming the Dow Jones Industrial Average from March 15, 1939, to December 31, 2010. The results, published in Scientific Reports, shed light on why correlation risks in asset bundles were underestimated at the beginning of the recent financial crisis, and provided crucial information on the behaviour of markets in times of stress.

"When financial markets are suffering significant losses, our findings could be used to anticipate the increasing lack of diversification in our portfolios, which helps to understand the risk of making losses."

Preis and his academic colleagues discovered that a portfolio of shares, far from being diverse and spreading risk during a time of stock market slump, start behaving the same. This flies in the face of conventional wisdom. Traders are taught to diversify to spread their risk, but this general rule could have helped amplify the crashes, with Preis’s research finding that the correlation between stocks increases as the market slump heightens. Preis believes his findings could help predict the breakdown in the diversification effect. In effect, this 72-year study could give traders an extra early warning sign in the fight to avoid the kind of stock market crash that struck the world economy in 2008.

"With a higher level of market stress, stocks tend to move closely together rather than behaving randomly, and this has major implications because these correlations are used to construct portfolios which seek to minimise risk," Preis explains. "We could use the findings to help anticipate diversification breakdowns, which could guide the design of portfolios and contribute to the increased stability of the financial markets."

"When financial markets are suffering significant losses, our findings could be used to anticipate the increasing lack of diversification in our portfolios, which helps to understand the risk of making losses."

In collaboration with Moat, Preis has recently begun to investigate what secrets may be hidden in Wikipedia data. "We realised that Wikipedia data gives you semantic definitions of what people have clicked on, in comparison to data on search terms such as Apple which can have multiple meanings. It became clear to us that these data streams give us different perspectives on what people search for and what people find," he says. There, Preis anticipates, other kinds of research could be conducted and analysed to better understand human behaviour and decision making.
Seven myths of performance management

There is plenty of advice on performance management but, in practice, results are often disappointing. This is because we tend to make flawed assumptions – it’s time for us to re-examine them. By Pietro Micheli

Myth 1: Numbers are objective
A performance measurement system enables the gathering, analysis and communication of data on both organisational and individual performance. We want such data to be objective, right? Not necessarily. The quest for perfect, objective data is likely to leave us frustrated and disappointed. Performance data is ambiguous and open to interpretation, and its use and impact on performance depends on commonality of interpretations. While it is important to have robust data, managers should foster similar interpretations through leadership and communication, rather than trying to remove individual views (or worse, assuming that numbers are ‘objective’ and therefore speak for themselves).

Myth 2: Accuracy and precision
We want performance information to be as accurate and precise as possible. Or not. Organisations should treat performance management data as an investment in which benefits outweigh costs, rather than something that should be of the best possible quality. This balance can only be ensured by connecting measures to objectives. So the question is not, is our data as accurate as possible? But, rather, are we getting data that is not: is our data as accurate as possible?

Myth 3: Added value
We want performance information to be objective, right? Not necessarily. The quest for perfect, objective data is likely to leave us frustrated and disappointed. Performance data is ambiguous and open to interpretation, and its use and impact on performance depends on commonality of interpretations. While it is important to have robust data, managers should foster similar interpretations through leadership and communication, rather than trying to remove individual views (or worse, assuming that numbers are ‘objective’ and therefore speak for themselves).

Myth 4: Alignment
Managers and employees should be aligned to achieve the main organisational goals. Sure. But the typical way in which managers try to create alignment ends up generating bureaucracy and negatively impacting on staff morale. Cascading measurement systems in a top-down fashion, and rigidly connecting objectives, targets and indicators, end up generating an infinite sequence of unintended consequences. Sufficient discretion should be left at every level to make decisions about which indicators and targets to use.

Myth 5: Motivation
Performance targets, indicators and rewards are often used to focus attention, and engage and motivate staff. On paper. In reality we often experience a ‘vicious cycle of performance management’. The start point is usually a difficult situation in which performance has decreased or is deemed unsatisfactory. A series of measures is introduced to gather ‘objective’ data and attach rewards to targets in order to incentivise employees. As a result of this, people get ‘measure fixation’: they are very clear about what they have to do to hit the target, but they often miss the point, ie they forget about the underlying objective. To avoid this, organisations should involve people as much as possible while introducing a new system.

Myth 6: Enabling change
The introduction of new targets and indicators can kick-start the implementation of strategic objectives and promote different ways of working. But when it comes to organisational change, measurement systems have often acted as obstacles rather than enablers. When a system is pervasive and consists of a large number of indicators, organisational inertia may arise. This can become a serious issue for firms competing in very dynamic environments who, instead, need to adopt an empowering and flexible approach to the design and use of measurement systems.

Myth 7: Improvement
The ultimate goal of introducing a performance measurement system is to improve organisational performance. But when a system happens ‘to be’ is infinitely dependent on the roles measurement systems play within organisations. The main role is usually to monitor and report to satisfy requirements, internal or external. While this is important and, to some extent, unavoidable, impact on performance is often non-existent. Take the case of sustainability measures. While measuring social and environmental aspects is certainly important, most companies are simply reporting information externally – making no difference to either how the organisation operates or on its results. Performance measurement systems can, and do, make a difference when they are used to promote learning, for example by establishing a dialogue between headquarters and subsidiaries, between different functions within an organisation and between managers and employees.

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