360°

The Ashridge Journal | Autumn 2007

MAIN FEATURE:

Strategic leadership in the media industry

ALSO IN THIS VOLUME:

- The transformation of food consumption
- Mastering the power zone
- Removing your decision making blinkers
- Living in uncertain times
- Perspectives: Can't Manage/Won't Manage

ASHRIDGE

Contents

My angle

We are living in a period of very rapid change. In our own lifetimes we have seen technological progress on an unprecedented scale. This is evident in travel, communications, medicine, computers, flat screen TVs, Nintendos, PS2s, Gameboys and – perhaps the most surprising – in that you can get fresh strawberries all year round! Change, but also uncertainty is all around us. The articles in this edition of *360°* reflect the shifting nature of the world we live in.

Business organisations and those working within them have played a major part in being leaders of change, contributing to greater and greater progress. However, this progress has incurred various costs. The damage to the environment and climate change are set to become the defining issues of the 21st century and the future is very unclear. *Living in uncertain times: Organisation dynamics in response to uncertainty* illustrates this perfectly, by looking at the dynamics of an organisation, when it moves from a relatively stable environment to one of turbulence. Environmental and sustainability issues are at the top of everybody's agenda and the article, *The transformation of food consumption*, analyses the changing consumer attitudes and behaviours regarding the production and consumption of food.

Mankind is perhaps facing its greatest ever challenge and our opponent, the force of nature, is one that can make us look very insignificant when it chooses. In the face of such a force what can governments do? What can we do? What can you do? After all, what difference can one person make?

Well, one person can make a great difference. A good example is Ray Anderson, the CEO of the biggest commercial carpet company in the world with factories on four continents. In 1994, he was asked to address an internal group on the environmental strategy of the business. At the time, he realised that this was no more than just a compliance issue of ticking the right boxes. However, he decided to try and further the debate and did a bit of background reading. He came across the *Ecology of Commerce* by Paul Hawken, a marvellous book that challenges traditional economic models and their relationship with the environment.

The impact upon him was so fundamental, the arguments so compelling, that he decided there and then that someone had to do something. He would set an example by changing the business and how it was run. Now deciding to do something like this and actually doing it are two very different things. This was 1994, when the whole subject of climate change was still being hotly debated, so the need to do anything was not established. This was in America and Wall Street, for example, was not amused at his antics.

His company, and for the last few years I am proud to say, my company, is now one of the most profitable in its field. Since 1994 we have reduced waste to landfill by 70%, reduced energy consumption by 45% and run all our European factories on green electricity. We have reduced our CO_2 emissions by 60% and were one of the first organisations to offer customers the option to make their purchases climate neutral. Yes, ‘But how much has all this cost?’ is the usual question when I talk to people. The answer is that we have *saved* over $330m. The article, *Removing your decision making blinkers*, is pertinent, as it looks at how a better understanding of individual and group behaviours can improve financial decision making by individuals and organisations.

The measures we have taken are only just a fraction of what needs to be achieved. But just think what if every business had done this? And none of this would have happened if one man had not decided to make a difference.

So back to my original questions – what difference can one person make? What power do you have? The simple fact is that through your leadership, if you choose, you can make a tangible difference. *Mastering the power zone* provides some insights into how managers can increase the scope of their impact as they attempt to introduce change in their organisations. When change occurs, it invariably starts with individuals. The role of the media is also tremendously powerful in changing behaviours and shaping our future. The lead article, *Strategic leadership in the media industry* gives us insights into what makes for good leadership in some of the world’s biggest media organisations.

In this edition, it is a privilege to publish *Can’t Manage/Won’t Manage*, the last article by former Ashridge Governor, Sir Brian Wolfson, before he passed away earlier this year. As an individual, Sir Brian made a huge impact in bringing about change. His article is a fascinating thought piece on why successful business execution is declining and the role that business schools can take to help reverse the trend.

I do hope this edition of *360°* provides some inspiration and ideas on the differences and changes you can make.

Lindsey Parnell

President and CEO, Interface Europe

Lucy Küng is a research fellow at Ashridge. She has extensive experience of the strategic, management and organisational challenges facing the media industry, having worked with numerous organisations including the BBC, Swiss Broadcasting Corporation and Discovery Networks Europe.

Email: lucy.kung@ashridge.org.uk

Strategic leadership in the media industry

Autocratic, manipulative, power hungry, perhaps even deranged – the media mogul as portrayed in the press is one of history's more enduring figures. What are the strategic approaches and leadership traits that make for success in this fast moving, often turbulent industry? Lucy Küng combines recent thinking on leadership in creative environments and makes some recommendations for leaders in the media.

1. Decode environmental turmoil, check your assumptions and find the business opportunity

The media industry is experiencing extreme environmental change, arising from contiguous but unrelated changes in technology, regulation, and consumer behaviour. As chief strategist and 'official interpreter' of the environment, the leader must perceive changes, puzzle out their importance, and then decide how the organisation should adapt.

Leaders must therefore be able to update their operating assumptions – Schein[1] terms this "learning leadership". In such conditions double loop, or second-order, learning can be required. This involves questioning the governing operating norms, unlearning prior assumptions and developing new ones[2].

Rupert Murdoch is perhaps not the first name that would come to mind when searching for a learning leader, let alone a double loop one, but there is much evidence to show he can be categorised as such. Murdoch is particularly skilled at identifying the rules of the game in emerging contexts, and using these to create a new business model which frequently sets the game rules in ensuing years for all players in the sector. These business models often involve the simultaneous exploitation of an emerging commercial opportunity, advances in technology and a regulatory gap[3], as well as the objectives of governing politicians. This approach was evident in his transformation of the UK newspaper sector, the editorial approach of Fox News, but is perhaps most neatly exemplified in the creation of BSkyB, the UK pay-TV platform.

2. Get comfortable with risk

The harsh reality of the media industry is that success is supremely unpredictable, and there are no guarantees. In the famous words of screenwriter William Goldman, "Nobody knows anything". For decades, the standard response to this situation was what has been called the 'mud against the wall' formula: if enough different products are 'thrown at the market', sooner or later, something will stick. Essentially, a portfolio of products – books, CDs, films etc – is made available and the media company then waits to see what sells. This has given rise to an alarming waste of creative investment. For example, during Katzenberg's decade at Disney, of the one thousand plus projects he oversaw, just ten percent accounted for 91 percent of the studio's operating income.

In recent years however this model has been replaced by the 'hit' or 'blockbuster' model. This occurs when a few media products, bestselling books or blockbuster films, capture ever larger markets and generate the bulk of revenues. Products which are seen as having the potential to become hits receive the lion's share of investment and attention. In such contexts it makes strategic sense to pay high advances and royalties to top content creators and then spur demand by spending aggressively on promotion[4]. But the risk associated with such decisions has grown also. Content is an uncertain business (why was *Titanic* a winner and *Waterworld* a loser?) Heavy investment in content that fails to resonate with the market can have disastrous consequences as the music industry has found to its cost.

Thus increasingly, content decisions are high stake gambles that ultimately fall to the leader of the media organisation, since such decisions are simply too risky for executives lower down the food chain. Therefore the leader of the media organisation needs to be comfortable with risk and be able to gamble well. This aptitude, combined with an ability to decode the strategic environment, can provide a strong basis for strategic advantage.

Murdoch, it is claimed, has built his entire empire by defying convention and taking risks[5], and Turner's appetite for risk is said to be insatiable[6]. In his words: "If you are going to try to change things in a big way you have to be willing to go against the odds and sacrifice everything."[7] These reports suggest that a sophisticated facility with risk is a trait shared by some high profile leaders in the field.

3. Make your company creative over the long term

The strategic relevance of creativity for organisational performance in the media industry is beyond question. In the words of Scase[8]: "Without their employees coming up with ideas that can be turned into commercial, saleable commodities (media firms) are dead."

Theories of organisational creativity have demonstrated how relatively prosaic aspects of the work environment affect levels of creativity in all individuals. In essence, high levels of creativity require high levels of intrinsic motivation, and intrinsic motivation is strongly influenced by context, in particular by five specific aspects of the work environment[9].

1. Encouragement. If creativity is required from staff then this needs to made clear. This involves more than paying lip service to the idea of creativity: it must be demonstrated through management action (how priorities are set, which projects are viewed as most important, what kinds of behaviours are rewarded, etc) that creativity is central to current operations and future success. Creative contributions need to be publicly celebrated. Feedback on new ideas is also important. If these are disregarded or handled clumsily staff can feel that the interest in creativity is only cosmetic and experimentation will be discouraged.

2. Autonomy. Staff required to produce creative results require autonomy, but the level of autonomy needs to be carefully gauged. There should be freedom around the means by which the goal is to be achieved (process), but not concerning the nature of the goal itself which should remain clear, constant, and unambiguous throughout.

3. Resources. These should be sufficient to allow the task to be achieved, but not over-generous since resource slack can reduce project focus and discipline. If deadlines are too unrealistic staff will have no time to 'play' with concepts and solutions and there is a risk of burnout.

4. Challenge. Creativity is enhanced by clearly defined overall project goals. These need to be mobilising but not demotivating and there needs to be a good match with expertise and creative-thinking skills. Should the creative task be too extreme, staff will feel overwhelmed and threatened by a loss of control.

5. Team composition. Teams working on creative projects should encompass a diversity of perspectives and backgrounds. There needs to be a constructive challenging of ideas and shared commitment, which in time can allow the development of a strong sub-culture. Homogeneous teams can limit creativity since too much social cohesion can inhibit the exchange of ideas and diminish creativity.

It falls to the leader to ensure that an organisational architecture conducive to creativity is present. If we look at the cases of BBC News Online, HBO's Original Programming Division and Pixar Animation[10], we see that in these three firms, which have enjoyed unusually consistent track records in generating creative products that please audiences and critics alike and are also financially successful, all the contextual components identified as important for creativity: encouragement, autonomy, resources, challenge and team composition, were present and stemmed directly from the firm leadership. Again, this confirms that one role of a leader is to engineer a work context that ensures a steady stream of novel products[11].

Disney's Eisner perceived himself as a creative leader. In an intriguing interview in the *Harvard Business Review* in 2000 he describes how he institutionalised an environment for creativity. The creative challenge was established in "regular Monday staff meetings where people are not afraid to speak their minds and be irreverent... an environment in which people feel safe to fail [where] criticism for submitting a foolish idea is abolished.... We like to think we have fun here – we're loosey-goosey, with a freewheeling, spontaneous exchange of ideas. At the same time discussion is brutally honest." This, he felt, was "confidence building."

Others' perceptions of Eisner's creative leadership paint a different picture and underline that in creative organisations it is not what leaders do, but how their actions are perceived, that is critical. Accounts of Eisner's leadership describe him of being "such an oppressive force that creative talents felt muzzled."[12] The talent agent Michael Ovitz, who for a short time was his second in command, was struck by the fact that at the weekly staff meetings that were "the focal point of [Eisner's] management of the company, extolling the freewheeling, spontaneous exchange of ideas and the 'synergy' that he was so proud of, there was actually very little exchange if ideas. Most of the lunch was a stream of consciousness monologue by Eisner. No one disagreed with anything he said."[13]

4. Get the vision right

"Vision serves the function of providing the psychological safety that permits the organisation to move forward..."[14]

A clear inspiring vision is central to strategy and leadership. Vision is central to creativity also, since no new product or service can be created without a clear vision that is simple, achievable – but also stretching and inspiring. The underlying mechanics are that the 'right' vision will resonate with pre-existing, intrinsic motivation and lay the seed for ultimate success in that it sparks off both a creative response to the core idea and a deeper sense of commitment to its fundamental goals.

A prime example of a leader who has mastered 'the vision thing' is Steve Jobs. His vision, to build "insanely great" machines that will "make a dent in the world", swept away rational objections based on Microsoft's overwhelming market dominance and technological hurdles. An Apple employee describes how:

"We really believed in what we were doing. The key thing is that we weren't in it for the money. We were out to change the world."[15]

Vision and charisma go hand in hand. Jobs' charisma is fascinatingly described:
"(It) drew people to him even when they knew he might attack at any moment, and created a degree of loyalty few executives ever match."[16]

Vision and charisma are key elements in two relatively recent schools of leadership theory: transformational and charismatic leadership. Through vision, a *transformational leader* exerts extraordinary influence over followers, who then internalise the leader's vision and unite them around the new goal. In this way the leader's vision has a powerful effect on individual and organisational performance.[17,18]

Charismatic leaders are also exceptional individuals who use vision to influence others to act in certain ways. While transformational leadership is normally understood as a positive concept, charismatic leadership has a shadow side that can express itself in narcissism and a blinkered single-mindedness[19]. And while charismatic leaders improve employee satisfaction, motivation and performance, they can also underestimate threats in the organisational environment, screen out negative information and have an inflated sense of their own importance. Further, the success of charismatic leadership is particularly dependent on context[20]. Charismatic approaches tend to suit strategic crises but be counter-productive once an organisation has mastered an emergency situation.

BBC News Online

BBC News Online provides an example of transformational and charismatic leadership at work, and also of the inter-relationship between leadership, vision and creativity.

The vision for BBC News Online came from BBC Director General, John Birt, who as early as 1995 decided that the Internet was likely to become the third broadcasting medium after radio and television, and that to maintain its rightful position as national media leader – and news leader – the BBC must have a strong Internet news service. His vision therefore was that BBC News Online would extend the BBC's unique news 'voice' on the emerging medium of the Internet.

Birt's vision fed directly into the intrinsic motivation of the individuals working on the project and thence to levels of creativity. Birt framed the Internet as a natural extension of the BBC's historical mandates as public service media provider and news provider. This resonated with existing cultural assumptions concerning the importance of the BBC's role in these two areas and ensured that the goals of the new project fitted the deeper internal aspirations of its staff. By describing the Internet as an opportunity not a threat, it also ensured an open-minded attitude on the part of those working on what was for the BBC a radical departure from their standard range of activities (in psychological terms this avoided a phenomenon known as threat-induced rigidity, which limits creativity). In terms of the News division, Birt's vision resonated positively with the strongly internalised commitment to public service news. This, coupled with the journalistic potential of the medium, which in turn energised the professional commitment of the journalists working there, combined to boost intrinsic motivation and created an attitude of intellectual playfulness which encouraged creative risk taking and resulted in greater creativity.

The second leader at work was Bob Eggington, the project manager. Eggington provides evidence of the overlap between the concepts of transformational and charismatic leadership, since, while his style can be described as transformational, it also exhibits traits typical of charismatic leadership. Eggington advocated a vision – not perhaps in terms of the product concept, but certainly in terms of how the unit should function – that was highly discrepant from the status quo in the BBC at that time. This was essentially, in the words of those working on the project, that News Online were "pirates under the radar screen of the BBC" and operating in "the Wild West". This gave rise to high levels of commitment, a sense of urgency, creativity and flexibility.

Eggington's style of achieving this vision – encouraging staff to ignore the strictures of BBC policies, procedures and bureaucracy – was unconventional for the BBC, highly successful, but involved a high personal cost.

5. Don't go it alone – collaborate

The strategic rationale for this recommendation is that the challenges facing the leader of a media organisation straddle both responding to the external environment and managing the internal ecosystem. It is very unlikely that a single individual will possess the capabilities necessary to master both of these spheres of operation.

Multiple leadership structures are relatively common within high performing media organisations. For example, as we have seen above, BBC News Online was launched with a dual leadership structure. In this case the role division was that John Birt, the BBC's Director General, developed the initial vision, followed the unit's progress closely, but never actually visited the operation. Bob Eggington, the project manager, realised Birt's vision, by shielding the venture from the bureaucracy of the parent and establishing a positive culture and an environment conducive to creativity. He provided day-to-day leadership. This complementary leadership structure combined to create leadership that was exemplary: visionary, motivating, supportive and accessible.

We see a similar structure at Pixar, which is led by a combination of John Lasseter, Ed Catmull and Steve Jobs, as well as at Disney during Michael Eisner's most successful years, when he was CEO, Frank Wells handled the complex administrative and financial side of the business, and Jeffrey Katzenberg ran the studio.

6. Exit gracefully

Eisner's is just one in a long procession of clumsy exits by leaders in the media industry: Gerald Levin, Thomas Middlehof, Jean-Marie Messier, Steve Case, Greg Dyke, Conrad Black, and of course, Robert Maxwell all spring to mind, but the list could be far longer. The ability to make a graceful exit – knowing when to move on and leaving a good successor when you do – might be described as the ultimate leadership skill. The issue of leadership exit has been exhaustively studied, but diversity in terms of research contexts, methodologies, basic definitions and research fields make it hard to draw general conclusions from this work for the media sector.

What is clear is that entrepreneurs and founders (both are prevalent in the media sector) have particular difficulty in giving up what they have created, and that the preparation for succession is psychologically challenging for founder and successor[21]. They may officially be grooming successors, but unconsciously they may be preventing powerful and competent people from functioning in the successor role, or they may designate successors but prevent them from having enough responsibility to learn how to do the job.

Conclusions

So what defines good leadership in the media industry? Without doubt, in view of the current climate of ongoing turmoil, good leaders will be need to be entrepreneurial and constantly attuned to environmental change. They will provide their organisations with a credible but inspiring sense of direction. Their strategy will synthesise intuition and experience and expertise, involve an active search for new opportunities and, in the current climate, generate dramatic leaps forward in the face of uncertainty[22].

Eisner's leadership era at Disney also underlines the context-dependent nature of the task. Eisner was in many ways a victim of his own success. His entrepreneurial, detailed leadership approach was an excellent fit with the nature of the management challenge during the first ten years of his tenure – to achieve a turnaround at Disney and to renew the organisation. He succeeded in transforming a failing collection of media related assets into a complex media conglomerate. However, his success in this created a new challenge – managing a tightly-coordinated global multi-media organisation. This required a new leadership style. Disney had become too complex to be micro-managed, too diverse for a single leader. Eisner had found success through a passion for detail and aggressive cost control. This recipe was appropriate for a turnaround situation but was detrimental to ensuring the constant stream of creative media products Disney needed to feed the massive global distribution architecture Eisner had created.

More broadly, the task of leadership in the media sector contains many inherent paradoxes. The span of competencies and talents required is best served by multi-leader structures, yet these complicate and dull decisiveness; the power, influence and responsibility place huge requirements in terms of self-knowledge and emotional maturity, yet individuals possessing such characteristics are unlikely to be able to stomach the temperamental, ego-driven, hard-nosed, power-hungry individuals who populate the sector. Success is random, high calibre projects ever more expensive and increasing competition means they are also ever less likely to succeed – yet it is almost impossible to compete in the field without chasing the next blockbuster. Not many have got what it takes to excel in leadership in the media industry. It's therefore no surprise that those who succeed become legends in their own time.

References

1. Schein, E.(1992) *Organizational Culture and Leadership,* second edition, Jossey Bass, San Francisco.

2. Tushman, M. L. and Anderson, P. (1986) Technological Discontinuities and Organizational Environments, *Administrative Science Quarterly,* **31**: 439-465.

3. Spar. D. (2003). *Ruling the Waves: Cycles of Discovery, Chaos, and Wealth from the Compass to the Internet,* Harvard Business School Press, Cambridge, Mass.

4. Vogel, H. L. (1999) *Entertainment Industry Economics: A Guide for Financial Analysis*, fourth edition, Cambridge University Press, New York.

5. Gunter, M. and Leonard, D. (2003) Murdoch's Prime Time, *Fortune,* February 17.

6. Bibb, P. (1993) *It Ain't as Easy as it Looks: Ted Turner's Amazing Story,* Crown, New York.

7. Cited in *Red Herring Online,* 3 February, 1999.

8. Scase, R. (2002) Create Harmony, not Harnesses. *The Observer,* 4 August.

9. Amabile T. M. (1998) How To Kill Creativity. *Harvard Business Review.* September.

10. Küng, L. (2004) What Makes Media Firms Tick? Exploring the Hidden Drivers of Firm Performance. In Picard, R. G. (Ed.) *Strategic Responses to Media Market Changes,* Jönköping International Business School, Jönköping.

11. Tushman M. L. and O'Reilly III C.A. (1997) *Winning through Innovation: A Practical Guide to Leading Organization Change and Renewal,* Harvard Business School Press, Cambridge, Mass.

12. Young, J. S. and Simon, W. L. (2005) *Icon Steve Jobs: The Greatest Second Act in the History of Business,* John Wiley, New York.

13. Stewart, J. B. (2005) *Disney War: The Battle for the Magic Kingdom,* Simon & Schuster, London.

14. Schein, E.(1992) Op cit, page 301.

15. Young, J. S. and Simon, W. L. (2005). Op cit, page 62.

16. Ibid, page 201.

17. Bass, B. M. (1985) *Leadership and Performance Beyond Expectations,* Free Press, New York.

18. Kotter J. P. 1996. *Leading Change,* Harvard Business School Press, Cambridge, Mass.

19. Conger, J. (1989). *The Charismatic Leader: Behind the Mystique of Exceptional Leadership,* Jossey-Bass, San Francisco.

20. Bryman, A., Stephens, M. and Campo, C. (1996) The Importance of Context: Qualitative Research and the Study of Leadership, *The Leadership Quarterly,* **7**(3): 353.

21. Schein, E. (1992) Op cit.

22. Mintzberg, H., Ahlstrand B., and Lampel J. (1998) *Strategy Safari: A Guided Tour through the Wilds of Strategic Management,* Free Press, New York.

Chris Gribben is a director of the Ashridge Centre for Business and Society. He has worked in the field of corporate social responsibility for over ten years. His recent research work has included disclosure and social reporting and the changing nature of corporate community investment and involvement.

Email: chris.gribben@ashridge.org.uk

Matt Gitsham is a principal researcher at the Ashridge Centre for Business and Society. His interests include understanding the business opportunities of changing consumer attitudes to sustainability.

Email: matthew.gitsham@ashridge.org.uk

The transformation of food consumption

Based on their recent research, Chris Gribben and Matt Gitsham examine changing consumer attitudes to food consumption and the implications and opportunities for food producers and retailers.

The production and consumption of food is currently raising a host of issues of enormous public and regulatory concern. This can be seen in the extensive media coverage devoted to food and topics such as healthy eating and obesity, pesticide residues, carbon footprints, packaging and waste, and labour standards abuses in supply chains. Food manufacturers and retailers, government and campaigning and public interest organisations are all competing for airtime to put across their views on these issues, but the perspectives of consumers themselves are less well understood. Given that the rapidly changing consumption patterns of consumers are creating business opportunities that are worth billions, this knowledge gap represents a missed opportunity for food retailers and suppliers.

Ashridge recently conducted research to explore consumers' changing attitudes and behaviour around these issues. Specifically, the research explored:

- attitudes to a range of health, environmental and social issues in relation to the food they purchase
- familiarity with and use of a range of different types of product packaging information, including nutrition, organic, Fairtrade and sustainable fishing labelling
- other sources of information that consumers use that inform their food purchasing decisions
- possible barriers to consumers doing more to take these issues into account when shopping.

A four stage approach was used in undertaking this research. The research team first conducted a series of interviews with key figures and experts in the subject area to inform the design of a survey of British adults. A questionnaire survey was then designed by Ashridge and conducted online by YouGov plc. The survey was in the field in November 2006 and attracted 2,605 responses. The data was weighted by YouGov to ensure that it was representative of the British adult population. The survey results were analysed and key findings distilled. Commentaries were then invited from key figures and experts in the area to provide a range of perspectives on the research findings.

What consumers really think

Food quality is shoppers' most important concern. Price is also very important for those on lower incomes.

When we asked people what kinds of things are important to them in relation to the food they buy, food quality was overwhelmingly the most important, with around three quarters (76%) of shoppers saying this is very important to them. A considerable distance behind was the price of food, which was identified by just over half (56%) of shoppers as very important.

This is very much in line with findings presented by *The Economist* in 2006[1], which identified that while four decades ago almost a quarter of household expenditure went on groceries, just 9% does now. *The Economist* also went on to cite a 2006 study by IGD (a grocery industry think tank) that found that just 42% of shoppers consider cost when choosing which foods to buy, down from 46% in 2003.

However, our research also shows that, while quality is consistently important for the vast majority of consumers regardless of income, perhaps less surprisingly, price is much more important among people with lower household incomes than among those with higher household incomes.

For example, seven in ten of those with an annual household income of between £10,000 and £14,999 say price is very important, compared with three in ten of those with an annual household income of between £75,000 and £100,000.

At least one in three think most health, environmental and social issues are very important in relation to the food they buy.

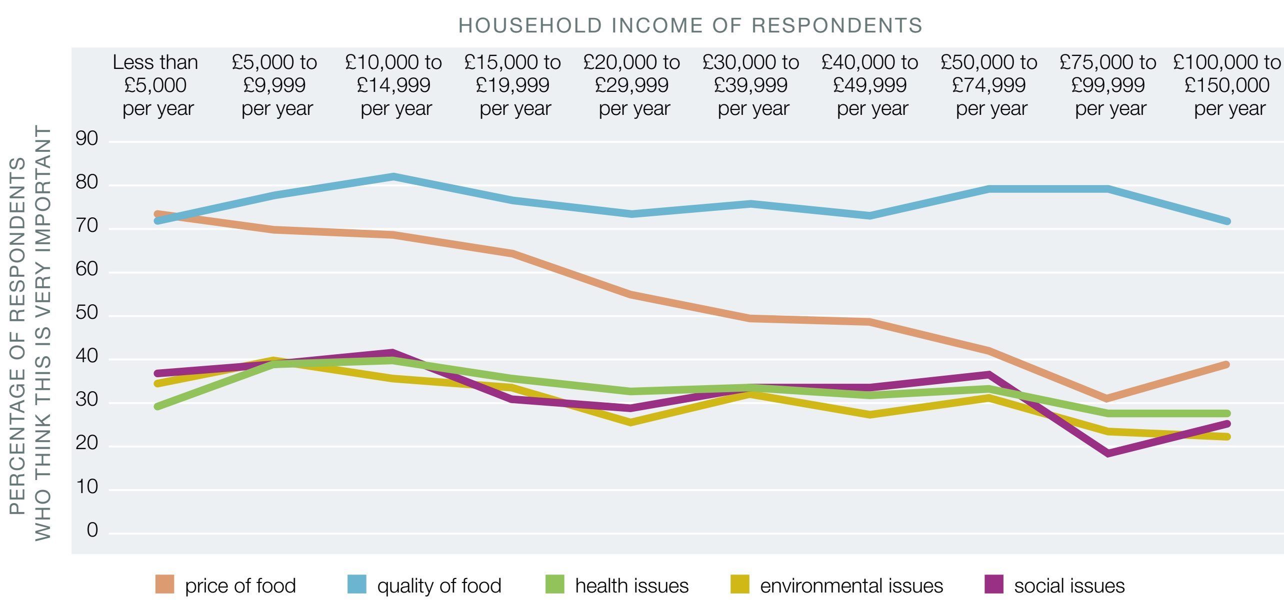
There are a cluster of health, social and environmental issues that are very important for as many as a third of shoppers. These include: appropriate consumption of fats, sugars, and salts; health and environmental impacts of pesticides and other chemicals, and of genetically modified foods; fair prices for producers; fair treatment of workers; and animal welfare.

A particularly important finding from the research – as Graph 1 illustrates – is that concern for this set of issues is just as strong across all income groups, challenging the widely held assumption that concern for these issues is only shared among more affluent people.

Only about a quarter of respondents think big environmental issues such as climate change and biodiversity are very important in relation to their food.

Public concern with climate change is currently very high in Britain: recent Globescan research, for example, shows that 70% of people in the UK now think climate change is very serious[2]. This would seem to suggest that comparatively few shoppers are actually making the link between climate change and the food they buy. Or, given the explosion of media interest in climate change since 2005, perhaps the level of shoppers' concern is growing fast from a very low base?

Graph 1: Understanding relevant Importance of issues to consumers



The research also shows that shoppers are a lot less familiar with the concept of biodiversity than these other issues – perhaps this is a more difficult concept for consumers to grasp than many of the other issues we asked about.

Food labelling: necessary but not sufficient

There is a growing profusion of different types of label and product packaging information linked to these concerns, including front and back of pack nutritional information, healthy eating branding, five a day fruit and vegetable labels, organic labels and Fairtrade labels, for example.

Many campaigners argue that labels on product packaging are the key to changing consumer behaviour, both in respect of healthy eating and social and environmental issues. Our research shows that labels are the most important sources of information about food that shoppers use. Forty-four percent of shoppers say they often use back of pack nutritional information about fat, for example. By comparison, company websites and helplines are used often by only a tiny proportion of shoppers (5% and 2% respectively).

However, Ashridge's research suggests that it is not labels in themselves that cause consumer behaviour to change. Rather, concern for the issues motivates consumers to change their behaviour and labels are the tool that enable them to act on this motivation. At least both elements are necessary for a change in consumer behaviour to occur.

For example, the research shows that people who are concerned about the broad range of issues we asked about are more likely both to be aware of relevant product labels and to use these labels. This is particularly clear in relation to health: three quarters of people who think appropriate consumption of fats is very important often use nutritional information about fat content, for example, compared with only three percent of people who don't think this is important.

But although there is also a clear link in relation to environmental and social issues, the gap between attitudes and behaviour is wider.

Only four in ten people who think fair prices for producers are very important often use Fairtrade labels.

This finding suggests that while motivation and the availability of a label are necessary factors for consumer behaviour to change, they are not necessarily sufficient.

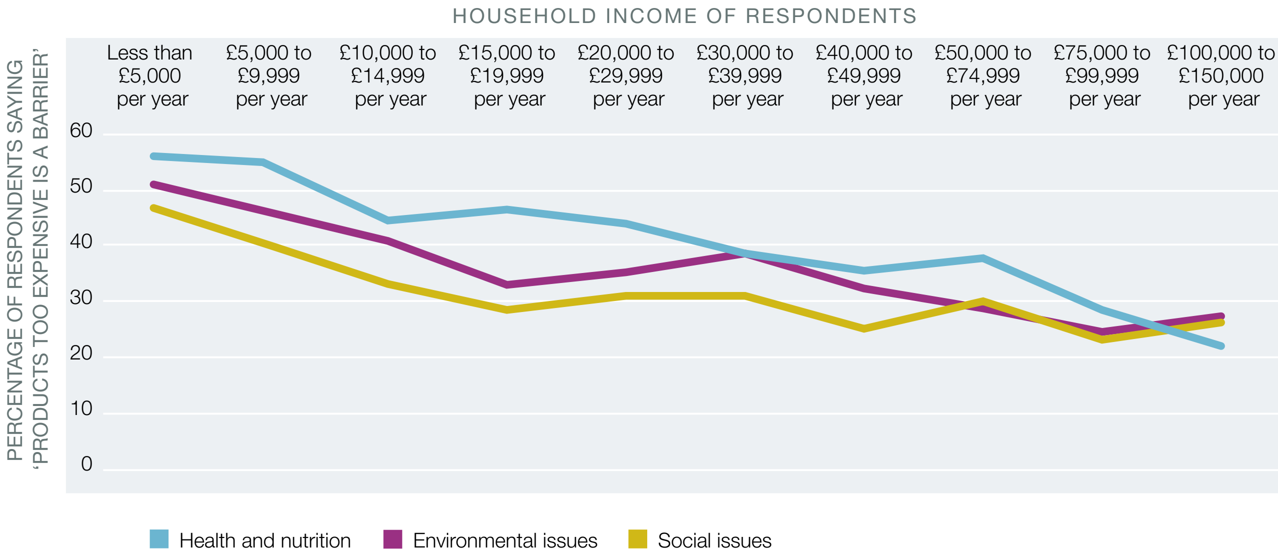
What are the other factors that influence consumer behaviour in relation to these issues? Our research shows that by far the most significant factor is price. And, as Graph 2 illustrates, this factor is far more significant for those on lower household incomes than it is for those on higher incomes.

Tackling the price barrier

There are many aspects of the research findings that food suppliers and retailers may do well to take into account in their quest to know and respond to their customers. For the purposes of this article, we have chosen to focus on the findings that suggest opportunities around pricing.

Across the range of incomes, price is cited as the greatest barrier to taking health, social and environmental issues into greater account. Furthermore, in all three cases, price is cited by many more people on lower incomes than by people on higher incomes. Given that concern about most of these issues is as strong, if not stronger, among people on lower incomes, it suggests that there is currently a vast market segment that has an aspiration for a certain type of product that is not currently being met with an appropriately priced product.

Graph 2: Understanding barriers to doing more to take health, social and environmental issues into account



The price of a product is determined not only by its cost of production, but also by how much a customer is willing to pay for it. The current premium price often associated with organic and Fairtrade products is not necessarily solely to do with higher production costs, but often also because these products are positioned as luxury goods, marketed solely to non-price sensitive consumers.

As author of *The Undercover Economist* Tim Harford[3] notes, in the UK organic milk commands a premium of around 15p per pint of which less than 6p goes to the farmer. Similar supermarket mark-ups are frequently found on Fairtrade goods.[4]
Many successful organisations create value by tailoring a similar basic product to the needs, aspirations and price sensitivity of different market segments. In recent years, companies such as easyJet and Accor have gained competitive advantage by developing business models that deliver high quality products and services at low prices to price sensitive consumers – a concept often referred to as 'value engineering'. For example, easyJet and other budget airlines have stripped out aspects of the product that customers don't think are important and focused on what they do think is important – getting from A to B quickly and safely.

Accor, through its IBIS and Formule 1 hotel chains, concentrates resources on those aspects of the product that consumers are most concerned about, like hygiene, bed quality and room quietness, rather than investing resources in other areas less important to price sensitive consumers like lounges, architectural aesthetics and room size.

Our research findings suggest that there are significant market opportunities available to companies who similarly think creatively about how to bring food products that address health, environmental and social concerns to price sensitive consumers. There are already some examples of steps being taken in this direction. For example, Sainsbury's has recently demonstrated this can be made to work by announcing its intention to switch all ranges of its bananas – from budget to premium – to Fairtrade[5]. Similarly Asda has recently announced it will triple its organic range with, it claims, products equally good as those at Waitrose but at prices that will be significantly cheaper. According to Asda, in focus groups its customers are now saying "We want organic and Fairtrade but we do not want to pay a premium."[6]

It is also worth noting that there are ways of reducing price premiums where these are related to higher production costs. For example, price premiums related to the limited amount of organic food available could also be reduced if less emphasis was placed on produce being perfectly shaped and coloured – Waitrose has recently demonstrated this by launching a range of "ugly" looking fruit and vegetables marketed at a reduced price for use in cookery and jam-making[7].

In order to respond to opportunities to grow market share – particularly among lower income groups – retailers and manufacturers need to understand the specific concerns of the people buying their products. For example, our survey found that among those who do most of their shopping at Marks & Spencer, one in four (24%) believes that the climate change impacts of food production and consumption are very important. In sharp contrast only one in fifty (2%) of Iceland's customers does. Yet when it comes to other issues, the attitudes of their customers are much closer. For example, the proportion of customers from Marks & Spencer and Iceland who believe that animal welfare issues are very important is 31% and 26% respectively.

Patterns of food consumption are clearly changing substantially and rapidly. For companies who stay close to their customers in order to understand changing consumer preferences and behaviours and adapt their pricing policies accordingly, there are real opportunities to win market share.

The full research report is available from: www.ashridge.org.uk/acbas

References

1. *The Economist,* A long, long way from Bentonville, September 30 2006.

2. Globescan, *Globescan Corporate Social Responsibility Monitor,* 2006.

3. Tim Harford, *The Undercover Economist,* Little, Brown Book Group, 2006.

4. *Mail on Sunday,* How supermarkets are squeezing fat profits from Fairtrade brands, September 24 2006.

5. *The Independent,* Supermarkets switch to Fairtrade bananas, December 13 2006.

6. *The Grocer,* Asda: Our organics will be a shock to Waitrose, September 16 2006.

7. *The Independent,* Waitrose offers 'ugly' fruit and vegetables at discount rate, June 19 2006.

Claudia Heimer is a Business Director of Ashridge Consulting. Her focus is on helping international organisations engage people inside and outside more fully as part of their strategic changes. Her experiences as coach and consultant contribute to her research agenda on power and emotions in the context of organisational change.

Email: claudia.heimer@ashridge.org.uk

Mastering the power zone

Whether managers choose to recognise and work with power or not, it still determines outcomes in organisations. In this article Claudia Heimer describes the "push and pull" of power games observed in her recent research and offers a mapping device that enables managers to recognise and work with the power dynamics that are at play in change processes.

Perspectives on power

How does the word "power" make you feel? Does it make you angry? Does it make you happy? Over the years, I have come across managers, particularly in emerging markets, who associate power with repressive government and therefore choose to lead through a highly participative yet disciplined approach. They choose to focus entirely on perfecting their leadership style and are not interested in power at all. Others are filled with enthusiasm and talk about their role models of powerful people who combine strong value sets and missions with extraordinary results.

What is power? We all have our own views on what it means. With the pace and complexity of change we experience today, more managers want to know how to master the power zone. Do you want true engagement? Do you want people really committed to the strategy of the company? Do you want your agenda to stand a fair chance? It's increasingly vital that you understand the interplay of political forces to increase your chances for success.

The subject of power has preoccupied many writers and academics over the last 20 years and they have come up with some great questions and approaches that have helped map out the field of power. For example, *"What are the sources of* *power?"* One of the most influential ways of looking at this question has grouped bases of power along factors coming from one's position in an organisation and others coming from personal factors[1]. *Position power* sources can allow managers to force others into compliance, or shape decisions because others attribute power to the role the person occupies. The *personal power* sources are either about exchanging knowledge or skills for what others want, or about having attributes such as charisma or fame. The limitation of much management literature and most approaches to power lies in their focus on the individual. They talk about power in terms of helping individuals to "get their way", reducing it mainly to personal attributes or technique.

From observations in organisations I have worked with, I was becoming increasingly aware that power is something that happens in relationships. If you take something, somebody else is letting you do this. If my observations were to be accurate, we can never really understand and master the subject if we simply study the traits of the powerful and try to replicate their successes. This drove me on to research the subject: research that increasingly led me to see power as something that moves around constellations of people that form and re-form continuously, particularly in change processes. My research findings have enabled me to help leaders think in a systematic way about influencing various types of political situations and adopt some simple approaches to becoming better at the power game.

Looking beyond the hero

Influenced by ideas from sociology[2], my research looked beyond the individual into the groups and the dynamics they produce during change. What happens when things start getting in flux? What happens when the "powerful" and the "powerless" interact? How do groups form and re-form in change? How are the outcomes of change processes shaped?

Scope of the research

My research, throughout 2006, focused on a variety of cases in the private and the public sector. It involved six companies in the IT, financial services, building materials and telecommunications industries; two additional case studies were an NGO and a public sector organisation. Three of the companies were large global players; the others were medium sized organisations in the UK, Germany, Switzerland and South Africa.

Some organisations were rather more hierarchically managed, with control vested very clearly with the leaders, while others were run democratically by involving employees in business decisions. In some of the case studies, change was introduced as a top down, radical approach. In others, it was more evolutionary. In the organisations that took part, I conducted 360° interviews with executives, their bosses or trustees, as well as their direct reports or peers (totalling up to 12 interviews for each case).

Across all continents and across organisations with widely differing value systems, my findings were strikingly similar. I found the same pattern in all the places I looked. There is a surprisingly simple movement in the power dynamics I saw repeated in the case studies, involving competing and collaborating forces.

People invariably formed groups, and invariably there were people who were perceived as "powerful" and people who were perceived as "powerless". No matter from where change was initiated, others first reacted with scepticism about the other group's intentions, ways of thinking, and approaches. How much of what is being proposed is going to go against our interests? The dynamics, as various interests interacted, resulted in a movement of push and pull, with giving and taking on all sides. One group transformed some things in the other peoples' thinking and the other way around, often without each side becoming aware of it!

I found that it was difficult for people to answer the question of what they had to let go of in the process of change. It was the very process of reflection after the event that allowed some of the leaders to realise that others had managed to get their way, at least partially, so focused were they on the desired end state.

The outcome of change was invariably the combination of what the "powerful" and the "powerless" wanted. In the study, even the most "top down" project didn't get implemented exactly the way the leaders wanted. The push backs always led to modifications. They might not have changed the overall course of action but at the very least, other people's reactions delayed the implementation of change.

While some of the change processes involved leaders apparently single-handedly driving change processes top down, the reality was different. Based on the findings, my suggestion is to try and understand how the pattern operates and stop fighting it by trying harder into the direction we want. We need to go with the dynamic power process so that we increase our impact.

Creating employee ownership

Axiz, a South African SME in the IT infrastructure distribution business, and the only hardware manufacturer in Africa, was founded in 1989. In 17 years, it grew to reach a turnover of ZAR 2.2billion and 650 employees by the end of 2006. This company is the continent's response to Ricardo Semler's famously self-managed company SEMCO in Brazil[3].

However, the journey has not been easy and management has observed much "push and pull" as they learned that power is something that must be accepted and not simply gifted. When management tried to make employee ownership a company-wide approach in 2003, it was surprised to hit a negative reaction. It first had to learn not to assume that everyone would naturally take to the idea of being an owner, or even take the idea seriously. It had to learn to talk as much about the rewards as the risks of ownership and stop trying to convince people. Everyone had to become educated on investments, inflation risks and return including capital gain and dividends in order to understand what truly embracing ownership would mean.

A lot of the push and pull stopped when the first dividends were paid out. Many people completely changed their view. This was real. Management wasn't tricking them into believing something that wasn't really that great for them. This was the point at which many employees started buying more shares in the company and really investing in their future.

When introducing an accelerated share buying scheme to iron out the inequalities that still existed in relation to the black/white and male/female distribution of wealth in 2006, management again found the reactions to be mixed. Why should women and black people be favoured? Imagine how the executives felt who were just trying to give their employees a large gift! Today, everyone joins as an owner. The company employs 60% of the country's black people active in the IT sector, with management holding 74% of the company and the employees 26%. The result is a 25% year on year growth, while the industry average stayed at around 5-10 %, and competitors grew by only 8-9%.

Stepping into power

If change processes allow everyone to have some degree of impact, how can we shape the outcomes of a political process? If one accepts from the outset that change invariably leads to both push and pull, give and take, the focus can shift away from fighting for separate agendas. Without wasting energy on attempting to drive change agendas through, the focus can be on discovering a new picture of the future that emerges, influenced by both the "powerful" and the "powerless".

Can you stay out of it? In the research, some managers were very comfortable with letting the political process unfold, and taking every situation as it emerges. Lack of foresight and thinking about political processes were leaving them open to being manipulated, excluded or used by others. Whatever you do, you can't really stay out of the power zone. There is always a political game going on. And you are always part of it. It is your choice if you are active or reactive in it. It's up to you to decide to shape it.

There will always be a degree to which the outcome of any politically charged change will be unknowable. Yet if you look ahead you will have more chances of reaching the outcome you desire than if you leave things to the political process. This is not about planning.

This is not about creating highly manipulative tactics for tricking other people into situations they don't want to be in.

This is not about being clever. This is about being able to read patterns of interaction between people; being clear about what matters to you and what you are unwilling to let go of; realising that you have a lot more influence than you might actually feel you have. This is about stepping up into the field of forces around you and actively shaping the dynamics and the results.

Wendy Luhabe, perhaps South Africa's most prominent female business and social entrepreneur once said: "Power is not something you are given. Power is something you step into."

Based on the research findings, I have developed a mapping tool to help you think about how to influence things by design (see Figure 1).

As you prepare to use the mapping tool, the challenge is to stop thinking about yourself as a lone hero while you consider the specific change situation you have initiated or you are faced with. You live and work in groups and somebody helped you get to where you are now. Who is helping you stay where you are and support you? The tendency of most stakeholder mapping tools is to treat stakeholders as individual players. Invariably, what you are actually faced with are *groups* of people who are interlocked in a political process of push and pull that might have many more dimensions of push and pull than the one (or the ones) you are looking at.

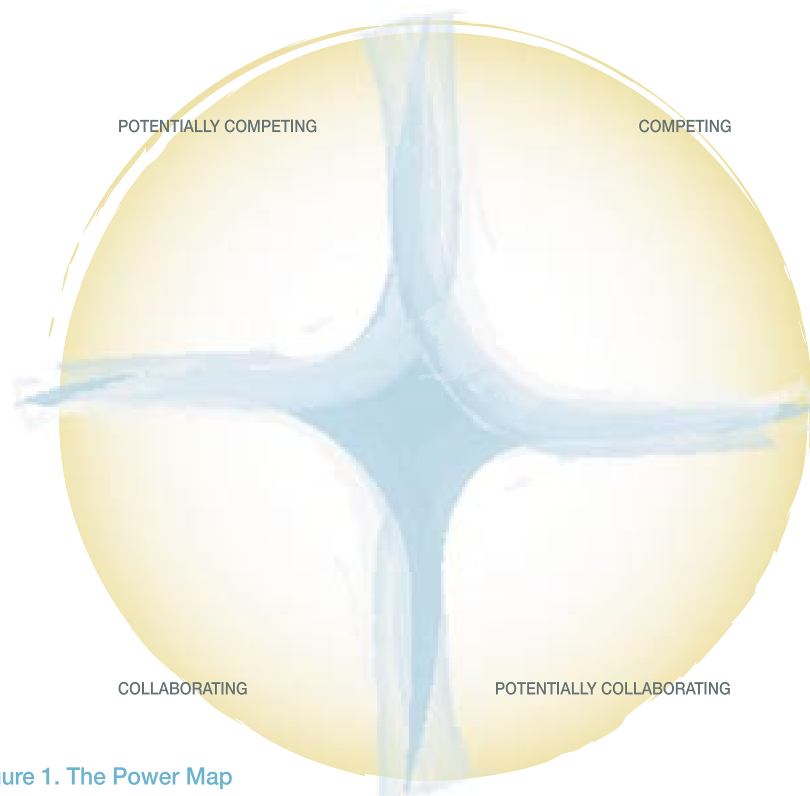


Figure 1. The Power Map

Step 1: Mapping your power constellations

In the "collaborating" section of the tool, place yourself anywhere you like with a dot and initials and then map your supporters in the same section and in relation to how close they are to you, again using dots and initials. Then draw lines between the individual players to help you reflect on the constellations that are supportive to you and your purposes. Who is connected to whom as they work with you to reach the outcomes you intend in your change process?

You might have considered your leadership skills as the key to your success. The trouble is that some people are most definitely opposed to what you want. They will not be led by you. They will not be motivated by you. They have their own interests. Where are they on the model?

Now move on to place dots with initials for all the people involved or impacted by your change process, using the potentially collaborating, potentially competing and competing sections.

Using the mapping tool, you can therefore first identify the players and map your power constellations (see Figure 2, Step 1 for a completed example, built for the CEO of one of the organisations in the study). Then, start the process of thinking about the pattern of interaction in the current situation. What are the other players going for? What are their interests? In what way can you help them reach their interests? What deals can you make with them? What is sacred to them? (And therefore unlikely to be something they are likely to move away from?) What could they let go of?

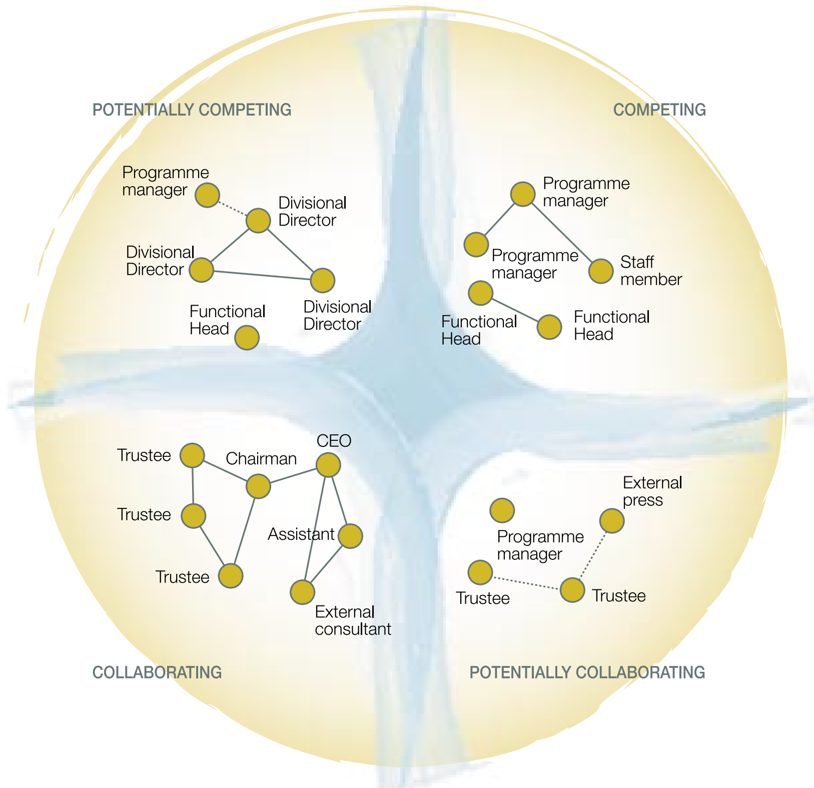


Figure 2. The Power Map
Step 1. Mapping your Power Constellations

Try working through the Reflection Exercise, *Step 1: Preparing the ground*, to help you deepen your thinking on the current situation and your own starting point. What legitimises your political cause, and what it is that you might let go of – the vital part of influencing the new balance of constellations.

Reflection Exercise

Step 1: Preparing the ground

Your side	**Others' side**
What legitimises your cause?	What legitimises their cause?
Who or what purpose are you serving?	Who or what purpose are they serving?
What are your obligations?	What are their obligations?
What are you fighting for?	What are they fighting for?
What is sacred to you?	What is sacred to them?
What might you let go of in terms of what you are looking for?	What is it they might let go of in terms of what they are looking for?

Identify the power constellations based on the power map and work through the reflection exercise for each important grouping!

Step 2: Shifting the balance

In a change process, once the initial political stance of the key players is clear, it doesn't matter who lets go first. Whoever does will be rearranging the political field and new possibilities will emerge. Watch out for those new possibilities as they come up – don't wait to be surprised by them. Identify people who are not connected very strongly within a grouping and look for what they are interested in. Sometimes finding a person looking for a connection with a group they can value, or a cause they can identify with, can bring a whole power system to shift the balance.

In the example from my research (see Figure 3, Step 2), a senior executive wished to effect change towards a high performance orientation in a public sector organisation very quickly after his arrival and initial "listening period". ***One***, he started intervening by promoting someone who had a very clear overall perspective on the organisation and therefore was neither tied to a territory or organisational silo, but was interested in linkages and reaching the overall goal. This was also a recently arrived person who was not inducted into the culture of the organisation. ***Two***, he then made redundant the group of divisional directors who represented the *status quo*, a forceful intervention going directly against the public sector culture of the organisation were people felt safe and there was no focus on benchmarking or performance. ***Three***, he linked the only high performing programme manager to the by now highly motivated cross-functional director he had promoted, providing both with an interesting and fruitful connection to pursue their goals. These three main interventions, quite different in scale and effort required, completely transformed the power balance in the new organisation. The resulting constellation of groups allowed a focus on performance orientation to become the new *status quo* within a few months of the start of the journey.

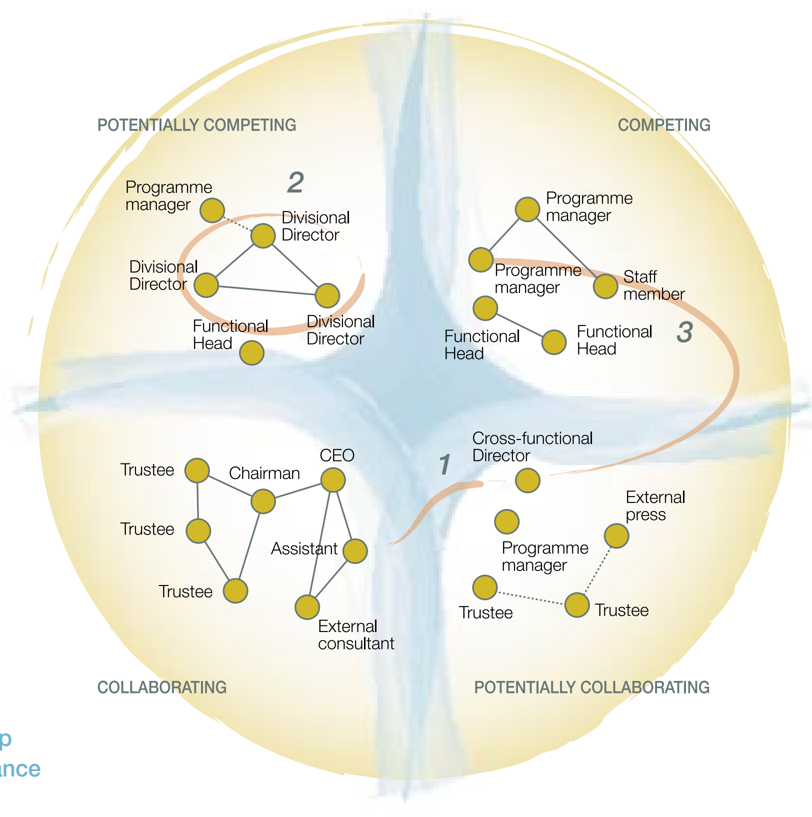


Figure 3. The Power Map
Step 2. Shifting the Balance

Reflection Exercise

Step 2: Getting ready to intervene

1. How can you shape meaning?

How do others describe what they are looking for?

How does your perspective fit with what others want?

How can you describe the perspective you are taking in a way that helps others?

Why are you asking people to change their position?

Why is that a valid reason? And why that?

What meaning can you give to the facts supporting the change?

What is your story?

What would you like people to see or feel in their minds?

What are you asking people to do in future?

2. How can you influence the way things are set up?

Looking at your power map:

What are the constellations you can influence?

What can you offer to the people you would like to influence?

What are you willing to trade in or let go of?

What deals or exchanges can you make with other players?

Identify the power constellations based on the power map and work through the reflection exercise for each important grouping!

As you prepare to think through how you would rearrange your own power field, try working through the Reflection Exercise, *Step 2: Getting ready to intervene.* This exercise points you towards exercising power through helping others to make sense of what the change is about and what it might mean to them, as well as thinking through ways of shifting the power balance in your current situation.

Does the power zone still feel daunting? Consider this. The masters of the power zone work with a few simple principles. They know what they want. They know what they are willing to trade in. And they know that they are not on their own.

References

1. French, J.R.P. Jr. & Raven, B. (1959). The Bases of Social Power. *In Studies in Social Power.* D. Cartwright. Ann Arbor, MI, Institute for Social Research: 150–167.

2. Norbert Elias provided the greatest impetus for this research, see Mennell, S. (1992). *Norbert Elias: An Introduction.* University College Dublin Press. One of his former students, Anthony Giddens, also played a major part in shaping the ideas and questions for the work. Giddens, A. (1986). *The Constitution of Society: Outline of the Theory of Structuration,* University of California Press.

3. Semler, Ricardo (1995) *Maverick: The Success Story Behind the World's Most Unusual Workplace.* New York, Warner Books

Further reading

Baddeley, S. J., Kim (1987). Owl, Fox, Donkey or Sheep: Political Skills for Managers. *Management Education and Development,* **18**, Pt.1: 3-19.

Mintzberg, H. (1983). *Power In and Around Organizations.* Englewood Cliffs, NJ Prentice-Hall.

Steve Watson is programme director for the Ashridge *Finance for Managers* programme. He delivers programmes in business finance, value creation, strategy and general management at Ashridge and around the world.

Email: steve.watson@ashridge.org.uk

Removing your decision making blinkers

So many business cases fail to meet their financial targets. Operational processes, risk management, poorly formulated strategy and execution are some of the well-rehearsed explanations. Steve Watson reviews recent thinking to include decision making traps at a behavioural level, suggesting how managers can try to avoid falling into them.

The rational view

An executive company speaker of a well-known oil multinational was addressing an audience of senior managers on the topic of control systems. Asked to list all the assets invested in their division, they agreed an approximate total (commenting that the sum was probably understated due to unrecognised intangible assets.)

They did a similar estimation of the operating profits for the division. A quick calculation revealed a return on assets in the low single percentages (Return on Net Assets or RONA, to be precise for that organisation).

After establishing that virtually all the managers submitted project requests, the speaker asked what was the division's hurdle rate (required Internal Rate of Return or IRR, again to be precise)? They all agreed it was much higher than the RONA – and would have been in any recent chosen period.

"So," he went on, "how many of you submitted requests that were below the hurdle rate?" They all agreed that the request would have been refused if they had. The remainder of the discussion was usefully spent listing reasons why they imagined so many failed to match expectations. The list they came up with was grouped into a few familiar clusters:

Performance
A small – and honest – group suggested that they had just not performed well enough collectively in executing their plans.

Competitive situation
For others it was a case that the competitive situation changed, impacting pricing or volume assumptions of revenues or costs.

Non-profit-making assets
Some non-profit-making assets (safety, head office, etc) do not generate returns so they drag down the average.

Accounting differences
The bases for calculating profits and net assets and thus the RONA, are different from those underlying the IRR. Most felt that over time they should expect some form of correlation between IRR and RONA. Actually those particularly familiar with the mechanics believed that the accounting differences would in fact be more likely to overstate the RONA – thereby making the undershoot worse.

Risk
Some investments are riskier than others – this is not reflected in the hurdle rate.

Inheritance
Many projects are long term in their nature and therefore the results of today are due to poor decisions of their predecessors. (This was a popular cluster – although the executive pointed out that it was his own peer group that made up the majority of predecessors!)

Systems and processes
The processes were in some way not effective or complete. Many managers did not fully understand the complexity of the request process and some who did, complained that the hurdle rate was set too high.

Predictive limitations
In the last group was a contingent who made the point that most of the time they were not in full possession of all the facts and – to paraphrase Mark Twain, Samuel Goldwyn and others – that it is difficult predicting the future. While this raised a small laugh when they confessed it, with a little preparation they could have made reference to a concept introduced by one of the business world's most respected thinkers.

Bounded rationality
Many years ago Professor Herbert Simon coined the phrase "bounded rationality."[1] Our ability to make business decisions is bounded or limited by the "cost" of all the information, uncertainty and decision complexity. In order to make some kind of progress, we need to take decisions without all the facts. In fact a study of prediction success by horse racing handicappers by Russo and Schoemaker[2] showed that as more data was provided their confidence rose while their performance peaked and then fell.

In recent years the limits of rationality have been explored further with a number of studies such as Prospect Theory[3]. Some studies have even used advances in brain scanning technology to develop early patterns in decision making observations, known as neuroeconomics.

So while the above is undoubtedly true as a checklist for most of the "rational" reasons that projects and business cases fail to meet their financial goals, it would be wise to be alert to some common behavioural phenomena that may help make sense of the occasions when logic just can't provide all the answers.

Know yourself

Your own thinking and that of those around you may be subject to the unconscious bias identified in Prospect Theory. Otherwise known as Behavioural Economics or Behavioural Finance, the theory challenges the basic assumption that economic agents (that's you and me) always make rational choices. Some of the key observations are:

We are more likely to be loss averse than risk averse.

People tend to take greater risks to avoid losses than to attain equivalent gains. Some estimates reckon this is in the order of 2 or 2.5-to-1. Investors for example will often hold onto loss-making shares where all evidence suggests they will lose more value, while selling successful ones that are poised to keep or grow their value.

Key questions: *Can you compensate for your personal loss aversion – and that of your team? Could your business cases generate a higher average return if you tolerated more manageable losses in order to gain some greater wins?*

We are likely to be unwittingly selective in the information we use to make a case.

People tend to give higher priority to recent information over more complete, better quality older data. Precedence is given to information that appeals to our preconceptions and not to that which challenges them.

Key questions: *Is there a chance you are skewing data selectively? Could you benefit from a "devil's advocate"? Can you develop the ability to play this role adequately yourself?*

We are prone to attach ourselves to "anchors".

People will often use reference points (in extreme cases arbitrary ones) to test the validity of information. It may be the first figure suggested in a negotiation, the last trading price of a share, or the most recent quarterly earnings of a company.

Key questions: *Is part of your thinking attached to an anchor? Can you develop a form of "zero-based thinking"? Do you judge cases by what is "practical" or "realistic" rather than what is "possible"?*

We tend to subordinate wisdom about the future to the emotion of the present.

Research, for example by Laibson[4], has shown that different parts of the brain deal with decisions affecting the long term and the immediate. When people are contemplating the distant future, the prefrontal cortex is active, suggesting a relatively more rational process – even if by definition not a perfect or complete process. When the decision is about more immediate effects, the more emotionally driven limbic system can overwhelm the thinking and reduce the benefit of usually more complete data. As Thomas Schelling[5] pointed out: "People often behave like two people... one who wants a lean body and the other who wants dessert." A survey quoted in *The Economist*[6] found that well over half of the chief financial officers questioned said they would cut a value-creating investment rather than miss an earnings target set by the market. Dessert today instead of lean body tomorrow!

Key questions: *Can you identify any difference in your thinking between the short and long term? Do you allow reflection time – personally and collectively – for dealing with decisions with a recognisably short term response – for example the glory of winning the contract over the more long term suitability of delivering it profitably?*

Self-interest and bias unconsciously impacts our decision making to a great extent.

Studies, for example by Bazerman and Malhotra[7], and Bazerman *et al*[8], have shown that we are often unaware of how our personal self-interest drives our decisions without our conscious recognition. We kid ourselves more than we think!

It even applies when we are acting as agents for a third party – we will not see how our decisions are biased in their favour.

***Key questions:** Can you develop your (and your team's) self awareness to recognise self-interest traps? Can you develop systems and rewards to be more congruent?*

Know your colleagues

Once you have done your best to clear your own thinking of unconscious bias, you may want to consider how others involved in the decision may behave. Logically you would like to believe that they too want the rationally best solution, although they too will be subject to the same influences as above.

Game theory (as developed by such authors as Neumann, Blinder, Nash and Axelrod) looks to account for the reactions of others, usually competitive "players". The best known examples are the *Prisoners' Dilemma* and the *Ultimatum Game*.

> *Prisoners' Dilemma* is where two prisoners have to choose between cooperating with the authorities (confessing) and not confessing. One variation of the dilemma has it that if only one confesses, that one goes free (and the other gets ten years); if both confess, each gets seven years; and if neither confesses, they both get one year. Evidence suggests that the most common response as a strategy is to confess, even though the "best" result (in total for both players) would be to keep quiet.
>
> The *Ultimatum* Game[9] is a simple experiment where two parties split a set sum. Player A offers a split and B can either agree or reject. If the latter, then neither gets anything. Countless experiments show that if the offer is perceived to be too small and unfair, B will tend to reject.

Extending this principle to business decisions illustrates why many worthwhile cases that rely on cooperation between parties might fail. Two mechanisms exist to correct for this. One is to have some kind of enforcement (the Mafia law of "Omerta" may keep you from confessing in the Prisoners' Dilemma, while rules, regulations, leadership, are some of the equivalents in organisations and economies). The other mechanism is when the dilemma is posed more than one time and players find themselves punished in subsequent rounds. The organisational equivalent can be found when managers feel that they may need to cooperate today in order to ensure that others will cooperate in the future with them when they need it.

The principles behind the *Prisoners' Dilemma* and the *Ultimatum Game* provide a good example of participants endeavouring to balance collective benefit with personal benefit. At one level focusing on narrow self interest can be seen to be a form of rational process – even if it is difficult to judge all the payoffs in reality – and lies behind the dark side of corporate politics. However there are many examples of sub-optimal overall solutions resulting from self-centred actions. They are the corporate equivalent of the driver who hugs the "fast lane" for personal comfort, driving below the speed limit – other, possibly faster, cars could be prevented from passing them and the overall result is a slower traffic flow.

An example is given in the book *Freakonomics*[10]. A day-care centre in Israel was experiencing problems with parents arriving late to collect their children at the correct deadline. They decided that they needed to introduce a system to incentivise a change in their behaviours – they introduced a $3 fine for each incident (of more than ten minutes late) to be added to their monthly bill. When the centre evaluated the impact of the scheme after 20 weeks, they found that behaviours had changed. Parents were on average even later! The $3 was not seen as a punishment, it was too small a deterrent. It served partly to assuage the parent's guilt and was also perceived as a very cheap babysitting fee. The value of the payoffs and penalties need to be set appropriately.

Key questions: *Are people's schemes and actions serving to meet the organisational goals or their own? Are most of your rules and systems designed to stop people doing something wrong (expense claims) or to help them do good (service level responses)? Have you correctly valued the payoffs and penalties?*

Know your organisation: draw on the Wisdom of Crowds

So, you've reflected on the key questions above and still want more. What else can you do to avoid the behavioural traps of decision making? The answer may be to draw on the "wisdom of crowds"[11], another area attracting recent attention. Could your decisions be improved by opening them up to a broader audience?

In 1986 within minutes of the space shuttle Challenger blowing up, the stock market had marked down the shares of the companies adversely impacted, particularly Morton Thiokol which was found six months later in the findings of a Presidential Commission to have supplied the faulty seals on the booster rockets.

This and other examples show the power of collective decision making – the "wisdom of crowds". It suggests that while an organisation in its collective form has the capacity to perform or at least condone irrational, and in many cases, unethical acts[12], under the right conditions and for certain types of clearly expressed options, opening up the decision to a wider group can unleash the capability to make better decisions than individuals or small groups within it may make.

The trick, it would seem, is to ensure that the "crowd" or group is diverse, decentralised and independent with an effective and transparent means of aggregating its members' ideas and inputs.

In practice many organisations' attempts to collective decision making is less than effective as they find themselves adopting a form of groupthink or trying to second-guess the views of key players in the firm. It can be difficult in complex political hierarchies to access genuine diversity. Another danger was pointed out in 1785 by the Marquis de Condorcet as he explored the degree of success in the French jury system of the time. His theory was that if the average probability of each individual in the jury/group getting the judgement/decision correct was greater than 50%, the probability of the group making the right decision approaches 100% as the group gets bigger. However if the average individual probability was less than 50%, the group's decision would get less and less likely to be right. So diversity needs to be balanced with some degree of qualification and insight, it would seem.

Key questions: *Is your organisation able to tap into the potential of its people? Is there a culture of diversity, independence, transparency?*

Our increasing knowledge of behavioural economics and its impact on financial decision making should focus managers' attention on a wider range of factors at work in determining whether their businesses meet their financial targets. Awareness of one's own tendencies, those of colleagues and the wider organisation – maybe addressed with the help of the key questions above – will be a good start on the way to removing managers' decision making blinkers.

References

1. Simon H.A. (1996) *Models of My Life,* The MIT Press.

2. Russo J.E. and Schoemaker P.J.H. (2002) *Winning Decisions: Getting It Right the First Time,* Piatkus Books.

3. Kahneman D. and Tversky A. (1979) Prospect Theory: an Analysis of Decisions under Risk, *Econometrica,* **47**.

4. Laibson D.I. (1997) Golden Eggs and Hyperbolic Discounting, *Quarterly Journal of Economics.*

5. Schelling T. (1978) Ergonomics, or the Art of Self Management, *The American Economic Review,* 98.

6. *The Economist* (2007) Report on Executive Pay, 20 January.

7. Bazerman M.H. and Malhotra D. (2006) When Not to Trust Your Gut, *HBS Working Knowledge,* May.

8. Bazerman M.H., Loewenstein G. and Moore D.A. (2002) Why Good Accountants Do Bad Audits, *Harvard Business Review,* November.

9. Guth W., Schmittberger R. and Schwarze B. (1982) An Experimental Analysis of Ultimatum Bargaining, *Journal of Economic Behavior and Organization,* **3**.

10. Levitt S. and Dubner S. (2006) *Freakonomics: a Rogue Economist Explores the Hidden Side of Everything.* Penguin Books.

11. Surowiecki J. (2005) *The Wisdom of Crowds,* Abacus.

12. Bakan J. (2005) *The Corporation: The Pathological Pursuit of Profit and Power,* Constable and Robinson.

Further reading

1. Hammond J., Keeney R. and Raiffa H. (2006) The Hidden Traps in Decision Making, *Harvard Business Review,* January.

2. Mauboissin M.J.(2006) *More Than You Know: Finding Financial Wisdom in Unconventional Places,* Columbia University Press.

3. Harford T. (2006) *The Undercover Economist,* Little, Brown.

4. Brafman O. and Beckstrom R.A. (2007) *The Starfish and Spider: The Unstoppable Power of Leaderless Organizations,* Portfolio.

Andrew Day is a consultant at Ashridge Consulting. He works with individuals, groups and organisations to help them change and develop, He has worked with a range of large organisations, particularly within the automotive and telecommunications industries.

Email: andrew.day@ashridge.org.uk

Living in uncertain times: Organisation dynamics in response to uncertainty

What happens in organisations when their environment moves from relative stability and predictability to one of turbulence, uncertainty and continuous change? Andrew Day describes how people reacted to greater uncertainty, and outlines how leaders can support people to adapt to such environments.

An emerging context for organisations

In the last two decades, organisations have experienced a shift in both the rate of change and the degree of change. This shift is emerging as one aspect of globalisation and technological advancement which is linked to societal changes, intense competition, deregulation of markets, dramatically shifting markets and political uncertainty. Change and instability now constitute the 'typical' environment for organisations creating a world where the future is increasingly uncertain and 'unknowable'. This 'turbulent' environment is experienced by individuals and groups in organisations as being uncertain, unpredictable and at times, chaotic.

Organisation dynamics that emerge in response to uncertainty

Whilst undertaking consulting work with five large UK organisations in the Energy, Telecommunications, Healthcare, Charitable and Publishing sectors, I conducted field research on how individuals and groups were reacting to uncertainty and change in their organisations. Each of the organisations was confronted with the need to respond to significant strategic challenges and change which had resulted in a period of ongoing uncertainty and unpredictability. In each project, the consulting work took the form of individual and organisation development to help individuals to make sense of organisational change and develop their capacity to undertake their work. The consulting relationship in each case lasted between six months and two years. The primary sources of data were the author's field notes, interviews conducted as part of the consulting work and observations of the dynamics that emerged during work with groups. These forms of data were also supplemented from my own experience whilst being 'in' the organisation and reflections on these experiences.

The common themes that emerged across this field work and were present in at least three of the organisations were:

- Feelings of disorientation and loss of identity
- Tensions between groups: 'Reformists' versus 'Traditionalists'
- Blurring of boundaries and fragmentation
- Painful emotions: hostility, anger and fear
- Heightened political behaviour
- Manic activity and 'firefighting'
- Heightened energy, creativity and personal development.

In each organisation, the evidence suggested that employees, at all levels of the organisation, were engaged with a process of trying to find meaning in their work. This process provoked considerable conscious and unconscious anxiety. Some individuals and groups responded to their anxiety by engaging with the challenges of their situation and exercising their creativity to find new ways of working and 'being'. Other individuals and groups were overwhelmed by their anxiety and responded by acting 'as if' they were powerless or helpless, unable to influence the organisation.

Feelings of disorientation and loss of identity

In each organisation, individuals experienced a loss of familiar and stable patterns of interaction within the organisation. They reported feelings of loss of control and security, in addition to losses associated with identity, power, competence and their hopes for the future. Many individuals appeared to be overwhelmed by feelings of helplessness. For instance, a middle manager commented in a meeting about the changes in his organisation: *"There is nothing we can do"*. For a significant proportion of individuals the loss of familiarity, security and stability is profoundly disorienting[1].

As the familiar structures and patterns disappeared in each organisation, individuals and groups started to experience confusion around their identities. To cope with their subsequent feelings of loss they would often respond by idealising the past. A frequently heard wish from individuals was for a return to the past. Individuals talked about how positive things "used to be" in the organisation. This process of 'idealisation of the past' seems to serve a critical psychological purpose in helping individuals and groups to maintain positive self esteem in periods of uncertainty and instability. However, managers would often interpret such responses as "resistance to change".

Their experiences of loss and disorientation reflected an underlying struggle to find meaning from their work. This struggle provoked significant anxiety for individuals who experienced a threat to their very existence and identity in the organisation. They were left with a deep sense of ambivalence about their organisations. On the one hand, they longed for a return to the stability and security of the past; whilst on the other they wanted to move on and address the difficulties of the present.

These findings indicate that 'grief for loss' is an important psychological process in organisations. People need to be able to grieve if they are to be able to accept their losses and create new meaning in their worlds. Marris[2] defines grief as: *"The expression of a profound conflict between contradictory impulses – to consolidate all that is still valuable and important in the past, and to preserve it from loss; and at the same time, to re-establish a meaningful pattern of relationships, in which the loss is accepted"*. The signs of grief include: shock and numbness, an inability to surrender the past, being unable to comprehend the loss, hostility against others, feelings of regret and deep sadness, and an inability to engage with the future.

Tensions between groups: 'Reformists' versus 'Traditionalists'

A common tension that was present in each organisation was between groups who were proponents of a particular change and groups who wanted to hold onto ways of being from the past. Each group tended to see the other group in a negative and pejorative light, labelling them as 'out of touch', 'unrealistic', 'resistant to change' or 'unmotivated'. Often the existence of different camps was not publicly acknowledged but existed as the 'known which cannot be acknowledged'. For instance, a senior leader in one organisation said: *"Under the veneer of compliance amongst the senior team, there is a lot of covert resistance to decisions and disagreement about strategy and vision."* Often this process of 'splitting' occurred between two existing groups; for instance, between the head office and the regional offices or between senior management and middle management. Each group retreated to 'tribal' boundaries whereby they displaced their ambivalence about the organisation onto the other group. This process meant that neither group had to deal with the tension between holding onto the past and realising a different future. Each group simplified their perception of their context, making it less anxiety provoking. Group members no longer needed to acknowledge the uncertainty of the situation but could hold onto the belief that they are 'right' and the 'others' are 'wrong'. For instance, in one organisation the regional offices argued that they were embracing change (and 'were not the problem') but saw themselves as hindered in their efforts by the head office where managers were trying to stop change in the organisation.

Blurring of boundaries and fragmentation

Each of the organisations in the research was engaged in a process of changing their structures as a way of responding to external pressures. This created uncertainty around roles, tasks and responsibilities. Who was required to do what was a common source of anxiety within each organisation. This led to tensions throughout the hierarchy. Those at the top were left feeling disconnected from the bottom. Middle managers felt pulled between the demands of the top and the bottom, whilst the bottom of the organisation felt that individuals in positions of authority were not listening to their concerns and frustrations[3]. Equally, fragmentation occurred horizontally with different task groups becoming disconnected from each other and working 'as if' they were not interdependent on each other.

The Leader/Follower relationship needs to shift in contexts of uncertainty from 'command and control' to a more negotiated authority relationship[4]. These changes have ramifications for leaders and their followers. Managers are required to relinquish control whilst followers are required to take greater responsibility for their work. In changing their relationship, both leaders and followers make themselves more vulnerable[5]. Managers need to trust their followers, which leaves them feeling exposed to mistakes or abuses of trust; whilst followers take greater risks when they take on higher levels of responsibility. In this research, both managers and their followers were left feeling confused about their relationship and what each can expect from the other. Senior managers would often protect themselves from their own anxiety by acting 'as if' they alone can control their organisation's destiny and deliver performance outcomes and financial results.

Painful emotions: Hostility, anger and fear

Strong feelings of hostility, anger and fear emerged when individuals were confronted with the loss of the familiar and high levels of uncertainty about the future. Many individuals felt victimised and expressed resentment about their experiences in the organisation. Often behind these emotions were feelings of failure, vulnerability or incompetence. To defend against such feelings, individuals and groups often resort to psychological defences, including denial, fight or flight responses and dependency. In many instances, individuals or groups created 'scapegoats' who they blamed for their situation. In one organisation, managers felt it was their senior management who were responsible for their difficulties. A middle manager in this organisation commented that: *'I see myself as a shield between the ravages of bad management and my teams'*. In another, the middle management at the centre was attacked from above and below for not changing. Often this hostility took the form of demanding that managers provide answers or clarity about the situation. The underlying wish was in fact that they take away any uncertainty.

Managers often expressed fear that the feelings of hostility and anger would be directed towards them. Paradoxically, where negative feelings were ignored there seemed to be the highest levels of resentment, mistrust or suspicion. There was also evidence that uncertainty evoked feelings of paranoia on the part of individuals and groups. Other groups or individuals were often experienced as 'the enemy' or 'being out to get them'.

It is not surprising that some individuals protected themselves from the anxiety and emotional pressures by withdrawing. They disconnected from the emotional life of their organisations, becoming apathetic, depressed and cynical about organisational life. They tended to lose trust in individuals in authority and their colleagues.

Heightened political behaviour

In all the organisations, individuals acted politically when they felt unsafe. They did this by connecting with individuals with common political interests and motives and avoiding those who they experience as having different agendas and interests.

When individuals feel unsafe in their world then they present a 'false self' to the world to manage impressions and keep their 'real self' backstage[6]. This creates an environment in which individuals talk about issues within the organisation without commitment or exposing their vulnerabilities or fears. In several of the organisations, decisions would be made without individuals taking the opportunity to express their concerns or frustrations within public forums and meetings. However, individuals would then complain and attack the decision in the safety of informal groups. The decision makers would then complain that no one implemented the decision in practice. One group of managers compared their experience with George Orwell's *1984*.

Manic activity and 'firefighting'

In three of the organisations, individuals and groups were to some degree engaged in a form of 'manic' activity. This was possibly an attempt to avoid feelings of anxiety associated with feeling out of control. This took the form of keeping oneself very busy and initiating many different and varied strategies to improve the situation. These organisations suffered from initiative overload which contributed to individuals feeling overwhelmed and weary. It is possible to interpret this behaviour as reflecting an unconscious desire for the organisation to return to a state of stability and certainty.

For instance, senior managers in one organisation complained of feeling constantly weary and tired because *"too much is going on just now"*. However, any suggestions to stop any of the activities was met with repeated arguments that this was simply unrealistic and not possible, despite acknowledgements from individuals that they could not adequately perform what was being asked of them (even though they were working very long days).

Heightened energy, creativity and personal development

In all the organisations studied, there were individuals and groups who were energised and excited about changes that were taking place in the organisation. They actively engaged with the challenges which confronted them and took responsibility for making change happen. Interestingly, these individuals were focused on acting locally where they felt they had control and influence. This was in contrast to individuals or groups who became fixated on debating problems that were beyond their control and influence. These individuals were often left feeling helpless and demoralised.

Where individuals and groups were actively engaged in working with the challenges they encountered there was evidence of creativity and innovation. Individuals were experimenting with new ways of working and enthusiastically applying their ideas in their work. These individuals also reported that the challenges that they were addressing were stretching their capabilities and providing them with opportunities for personal growth and development. Whilst they experienced their contexts as 'difficult' or 'demanding' they were able to point to their own development and growth.

Supporting people in periods of uncertainty and change

Leaders should recognise that the dynamics explored above are natural and healthy human responses to ambiguity and uncertainty. Their presence indicates that people are engaged in a process of transitioning to a new 'reality'. They are only problematic if they become *stuck* or *repetitive* patterns. In each of the five organisations, individuals were gradually accepting and adapting to an organisational life that was characterised by greater uncertainty and complexity.

Under certain conditions groups will naturally self-organise and develop new ways of organising that are adapted to their environments[7]. Paradoxically, these conditions require leaders to relinquish control and engage with facilitating a healthy process of interaction between individuals and groups in the organisation.

Leaders can help support people in this process in the following ways:

- Recognising that it is not possible to predict the future and make detailed plans that will guarantee a specific outcome. They can however encourage and lead the development of plans that provide a sense of direction, co-ordinate activity and contain flexibility to accommodate the 'not known' and 'unpredictable'. In times of change and uncertainty, developing a framework to co-ordinate activity helps to contain individuals' and groups' anxieties and develop a sense of confidence.

- Taking care of themselves emotionally and physically in their leadership role. If leaders are going to be able to help their teams to work through the process of change then they need to work from a position from which they feel secure and confident where their needs are met.

- Talking to people about their hopes, fears, doubts and frustrations. Connecting with people helps them to understand and engage with their experience of change and disruption to their lives and find new meaning. People often comment that it is helpful to hear about others' experience of the organisation and how it affects them.

- Encouraging risk taking and not punishing people for making mistakes. This creates an environment where people can talk openly about their challenges and experiences which facilitates learning about how to be effective in the new environment.

- Negotiating and agreeing new boundaries between groups and different activities and then providing autonomy and freedom for groups to self-organise and find creative and new ways of working and adapting to their challenges. Leaders need to put in place the minimum requisite structures to enable groups to manage and co-ordinate their work.

Concluding thoughts

When organisations are confronted with uncertainty they require leaders who will be able to work with the complexity of their worlds and the tension of 'not knowing', rather than promising 'salvation' through Utopian solutions[8]. If they create the right conditions and connect with their employees then together they can find ways to actively shape and engage with their organisations rather than withdraw into a passive or defensive role. They can create a new working environment that offers individuals meaning, excitement, challenge and opportunities for personal growth and fulfilment.

References

1. Shapiro, E. R. and Carr, A. (1991) *Lost in Familiar Places,* Yale University Press, New Haven and London.

2. Marris, P. (1986). *Loss and Change,* revised edition, Routledge & Kegan Paul.

3. Oshry, B. (1999). *Leading Systems: Lessons from the Power Lab,* Berrett-Koehler Publishers.

4. Krantz, X. (1998)

5. Hirschhorn, L. and Gilmore, T. (1992) The New Boundaries of the Boundaryless Company, *Harvard Business Review,* May/June.

6. Goffman, E. (1959). *The Presentation of Self in Everyday Life,* reprinted Penguin Books 1990.

7. Wheatley, M. (1999) *Leadership and the New Science: Discovering Order in a Chaotic World,* Berrett-Koehler Publishers.

8. Lawrence, W. G. (1998). Unconscious Social Pressures on Leaders. In: E. Klein, F. Gabelnick and P. Herr (eds), *The Psychodynamics of Leadership.*

Further reading

Hirschhorn, L. (1997) *Reworking Authority: Leading and Following in the Post-Modern Organization,* The MIT Press.

Miller, E. J. (1998). The Leader with the Vision: Is Time Running Out? In: E. Klein, F. Gabelnick and P. Herr (eds), *The Psychodynamics of Leadership.*

Neumann, J. E. (1999). Systems Psychodynamics in Service of Political Organizational change. In: R. French and R.Vince (eds), *Group Relations, Management and Organization,* Oxford University Press, Oxford.

Trist, E. L. and Emery, F. E. (1965) The Causal Texture of Organizational Environments, *Human Relations,* **18**, 21-32.

Former Ashridge Governor Sir Brian Wolfson died in May this year. Just one of Sir Brian's many former roles was Chairman of Wembley Stadium, giving him first-hand experience of project management and execution. We are privileged to be able to publish, in this specially extended *Perspectives* section of *360°*, this article that he wrote shortly before his death, together with Dr Andrew St George.

PERSPECTIVES

Can't Manage/ Won't Manage

Sir Brian Wolfson
Dr Andrew St George

What differentiates successful from unsuccessful business is execution. We look at where and why execution has failed in the UK; we examine the reasons for its decline; and we argue that business schools must teach differently in order to promote it.

"In business matters it is not enough to begin things, give them their direction, and get them moving; you must also follow them up and stay with them until the end. If you do, you will have contributed much to their successful conclusion. Anyone who does business otherwise often assumes that a deal is concluded when in fact it is hardly begun, and has many obstacles before it. You should remember that the negligence, the ineptitude, and the wickedness of men are great, and that many impediments or difficulties are inherent in the very nature of things."

Francesco Guicciardini, 1529

"Management is everything. If you get the management right, all else follows."
Sir Brian Wolfson, 2006

Where and why execution fails

The UK has suffered for the last fifty years from massive incompetence coupled with no management skills. In November 2006, the UK Government admitted it was spending an extra £400m on a body to ensure that the capital projects for the 2012 London Olympics were delivered on time and on budget. The budget, drawn up in July 2005, was originally £2.4bn. Throughout 2006 the budget increased by 40%; there were well-documented omissions, including an oversight in VAT liability and an increase in security costs. The revised budget will probably exceed £9bn.

The most interesting omission in 2005 was the provision for project management. This oversight is much more radical, we believe, than at first appears. It is axiomatic of both a blindness and a malaise in UK management, and marks another point in the long-term decline of our willingness and capacity to manage. What is fundamental is not so much the absence of the defined discipline of project management, but the lack of attention to how a project might be defined, monitored, controlled and delivered: in other words, managed and executed.

Other examples of a failure to manage abound. The National Health Service IT system costing £12bn and at least two years late, suffers from a lack of clarity in its conception and a lack of precision in its execution[1].

The Millenium Dome suffered from exactly this lack of focus and execution. What exactly was the Dome? A talisman for the future like the Epcot centre? A totem of social inclusion? A visitor attraction? A real-estate project? Or an exhibition centre? The lack of clarity led directly to a confusion of purpose and a waste of effort. The minister responsible for the Dome, Lord Falconer, apologised for the chaos on the Dome's opening night, and the Government, police, and New Millennium Experience Company spent the first week of 2000 in an undignified scramble to shift the blame. This was followed by an unseemly and pointless hiring and firing of directors; the £800m Dome was one of the most expensive disasters in British history[2].

Whatever and however we may think of the Dome, it failed to match up to its Victorian forbear, the Crystal Palace, home of The Great Exhibition of 1851. In fact, there has been a decline in the quality of public management since Paxton, Brunel, Brassey and Bazalgette built so much of the infrastructure of London. Why? We think it is because managers in the UK have ignored the central discipline of execution.

The discipline certainly exists, but not where we might expect to find it. The military, for example, has much to offer business and industry in terms of clarity of intent and rigour of execution. It has kept records of plans and outcomes for hundreds of years. One example is Admiral Nelson's *Trafalgar Memorandum* of 9 October 1805. Here, 12 days prior to battle, Nelson set out for his commanders his intent, his strategy, the resources he required, the contingency plan should everything go wrong, and the appropriate emotional inspiration.

We believe that proper execution depends entirely on clarity about intent, strategy, resources, contingencies and emotions. Moreover, without any one of these five elements, an enterprise is simply wasting its time and energy. It is the central skill of business management to identify that main intent and to express it simply and clearly.

Why is the discipline of execution lacking in the commercial and public sectors in the UK? There are three principal reasons. The first is lack of accountability in large public projects: the Dome in London, the Thermae attraction in Bath (ten years in the making and £30m over budget), the Red Dragon project in Wales (tens of millions wasted on an unused aircraft maintenance facility); all these were the products of collective thinking, muddled strategy and lamentable execution.

The second reason is scale and complexity; modern public projects are simply not handled with the discipline which project management dictates for smaller-scale ventures. The Nation Programme for IT in the NHS is a good example: it is more complex and more extensive than any healthcare IT programme in the world, and is the largest single investment in IT in the UK. Of course it is harder to oversee and manage complex systems, but this should not mean that they move from complex to chaotic.

The third reason is that these skills are not taught, or not taught sufficiently well, in universities or in the workplace. For reasons which we shall explore, modern managers are more interested in planning than in executing; more focused on making strategy than in implementing it; more keen to think than to do.

Reasons for the decline of excellence in execution

Everything has to be managed. It is a mathematical constant across the whole of life. To do this well you need the right culture, the right aims and ambitions. Certain things have to be done. Either they are or they are not. You do not need a business school to teach you that. The discipline of management is simple to master. What management does is clear. If you manage correctly, you will succeed. Management is in essence the science of execution, and any business which executes its plans properly will succeed, or at least the inverse is true: if you do not execute your plans, there is a diminished chance of success.

Internet entrepreneurs learned in the late 1990s and early 2000s one thing that traditional business had forgotten: they learned that the greatest defence against competitors was not copyright, branding, positioning or marketing, but speed and execution. It is fundamental in our fast-moving world. Victorian entrepreneurs understood this too; the great railways of the UK were built in a few years in the 1840s and 1850s, and on the back of them, a huge legal and investment business grew.

Now, execution is increasingly important. Why? Because as technology, communications, capital markets and industrial processes all speed up, the capacity to complete a project or piece of work is germane to business. The ability of an individual or a company to produce a product on time and on budget has never been more highly valued. As supply chains become more transparent and as inventory becomes shorter, all businesses must become expert at execution.

We believe we have been complacent in the UK for the last hundred years. Our protected markets first in Empire and then in subsidised trade have made us poor at completing on time and on budget. These are not qualities which we have valued culturally. We are now squandering the chance, in the automated information age, of focusing on the skills in execution which we need most: project management for short and long-term execution of management's aims.

The rise of consulting firms such as McKinsey & Co and Booze Allen Hamilton coincided with both the rise of business school education and the decline of native talent in the UK. The result has been the growth of the consultant culture; this has damaged UK plc in three ways. First, management consultants lack the financial interest and ownership of the companies they advise. This means they are not accountable to their clients' owners.

Second, no matter how loudly and often the mantra of "client first, firm second, individual last" is chanted, some management consulting firms are in business to create more assignments. This means that their motives can be at odds with their clients' management; not necessarily opposite, but not necessarily congruent.

Third, consultants like to bring about change; this may or may not be necessary. Clients committed to demonstrating that the consultants have been of service are more likely to implement change. Central government in the UK since 2001 is a good example of this.

According to the National Audit Office (NAO), central government spent £1.8 billion on consulting in 2005-06 (its highest spending was £2 billion in 2003-04). Spending on consulting across the Public Sector increased by 33 per cent between 2003-04 and 2005-06, taking it up to £2.8 billion, largely due to a rise in spending in the National Health Service[3]. The Management Consultancies Association estimates that central government spent £2.2 billion in 2005.

The NAO states that it is impossible to assess the benefits derived from the money spent on consultants because government rarely collects information on what has been achieved; it can be hard to identify useful measures, attributing cause and effect is not always easy, even where performance has improved. There is, the NAO thought "some way to go before central government overall is achieving good value for money from its use of consultants."

The main argument used by government to justify its use of consultants is that it needs external advice, specialist expertise and independence of view. External advice does not necessarily have to come from consultants; as for specialist expertise, the NAO recommends that public bodies should start with the presumption that their own staff is best fitted for their requirements; and a consultant's view, because of its inherent financial interest, is never independent although it may approach independence.

Moreover, alongside a highly developed cadre of consultants, we have an academic edifice which encourages complexity and abstraction. For example, recent articles from the *Harvard Business Review* and the *MIT Sloan Management Review* (2005-2006 issues) attend to such matters as: innovation strategy, strategies to fool the competition, managing complementors, winning in the aftermarket, strategies in emerging markets, the dynamics of strategy and strategies for two-sided markets. All these may well have precise application and relevance to particular men and women in an individual company under specific circumstances of time and place. But in management thinking, to generalise is to be an idiot.

This academic environment has an effect on what counts as management thinking. We took another look at the most influential management thinking over the last 40 years. It seems to us that while professionalism may have increased, a commitment to rigorous project management and execution has declined. The most influential management thinking has been in the areas of strategy (the BCG Matrix business re-engineering) and in service-based businesses (professional services, Total Quality Management and kaizen). New strategies, whether from management consultants or from in-house teams, are essentially abstract: the strategists identify a need or a problem and provide the answer.

In contrast, the greatest business writers of the last century, Chris Argyris, Warren Bennis, Marvin Bower, Peter Drucker, J K Galbraith, Charles Handy, Peter Porter, Reginald Revans, Frederick Taylor and Max Weber, have all done work well beyond or outside the academy. They have had the confidence to put things simply. The good news is that most business issues, when analysed, are in fact simpler than they appear, or at least than people think they are. But the bad news is that our universities and the academics within them have failed to have the confidence to apply simplicity and avoid abstraction.

Business teems not only with problems that have solutions, but with difficulties that must be lived with or dealt with in some other way. Since each business is different, the skills that bring about success are many and complex. Business is for foxes (who know many things) and not hedgehogs (who know one big thing). How might we teach this?

Business schools must teach differently in order to promote the science of execution

Many business schools teach by the case method. The first Harvard Business School case study (on the General Shoe Company) was written in 1921. The Harvard faculty writes 350 case studies annually. Each one takes 1-4 months and is carefully crafted in terms of the issues it raises, the analysis required of students to address those issues, the data needed to support the analysis, and the whereabouts of the data. Most Harvard MBAs will see around 500 cases in their two years' study. In 2005 the Harvard Business School sold 6m case studies to other schools and academics around the world.

The case study pre-supposes an issue. In this regard, it is neither scientifically rigorous nor in concert with the vagaries of everyday business life; it falls between the two. It is of limited use in teaching managers how to manage.

In 2005 Warren Bennis, the business writer, attacked business schools for failing to teach useful skills, failing to prepare leaders, and failing to instil ethical standards[4]. Why? Because the schools ignore competences and concentrate instead on academic performance; and one of the indicators of academic performance is the quality and rigour of research; they prefer methodologies to practical advice, and they value theory over principle.

There are larger social forces which will shape what and how business schools teach: falling numbers of students from the 18-21 age range; the fact that people are working longer; and the fact that changes of career are both more frequent and more acceptable than ever before. These three changes, with their concomitant changes in our psychological, social and economic view of what it is to work and to learn the science of work, management will have an impact on what knowledge is valued and by whom.

Employers and business graduates will come increasingly to value those business subjects and approaches which lead to better execution. We believe in an approach to management which values clarity, speed, precision and completion, in fact, all the elements of good execution. It may seem heretical, but the pursuit of excellence in business can often be a bar to timely execution: the best should never be the enemy of the good.

We therefore make three recommendations:

First, Action Learning, pioneered by Reg Revans in the 1960s, is one way forward for business schools, and is in fact practised at Ashridge and at Manchester. This method applies specific approaches to specific problems; it takes actual problems and applies actual solutions, much as an applied scientist might; and it makes clear that a refusal to think only about business theory is by no means a refusal to think.

Second, we suggest that business educators should look at how overseeing bodies, be they boards of directors or trustees of public finance, choose to evaluate and measure success. For example, the National Audit Office oversight of the NHS IT Programme examines the strength and viability of its concept, the quality of its delivery, the development of its infrastructure, and the running of its systems once they are in place.

Third, we believe that the discipline of Project Management, so little taught in business schools today, be integrated into the curriculum. It is the group of management skills which comes closest to the discipline of execution.

The MBA is 100 years old and last seriously revised in the 1950s (with only 3,200 MBA degrees awarded in the US in 1955-56). It is time for a radical rethink of the MBA. The degree as it is widely taught does not meet the needs of employers or students. We suggest that while all universities should teach students how to think and how to learn, a business school should teach students not only how to manage, but how to execute.

References

1. See: National Audit Office: *Report on the National Programme for IT in the NHS,* (HC 1173, 16 June 2006). See also: *Financial Times,* 27 November 2006, 29 March 2007.

2. *Euromoney,* October 2000.

3. See: National Audit Office: *Central Government's Use of Consultants* (HC128, 15 December 2006)

4. *Harvard Business Review,* May 2005.

Ashridge, Berkhamsted, Hertfordshire HP4 1NS, United Kingdom
Telephone: +44 (0)1442 843491 Facsimile: +44 (0)1442 841209
Email: info@ashridge.org.uk Corporate website: www.ashridge.org.uk

Produced by Red Sky: www.redsky.biz

ASHRIDGE