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2022

Retail Revolution

As online and offline shopping blur into one, here is how retailers can prepare for an omnichannel future

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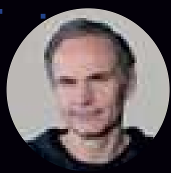

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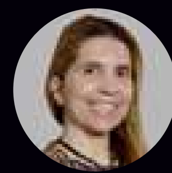

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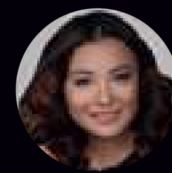

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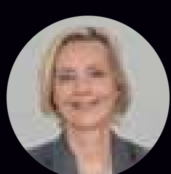

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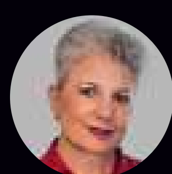

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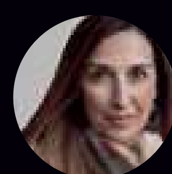

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Editorial Director of *IESE Business School Insight*

Business as normal

Today we hear a lot of talk about "the new normal," but the phrase is not so new. Allegedly the first reference to "the new normal" was in 1918 by the American inventor Henry A. Wise Wood, speculating about the state of the world after World War I: "How shall we pass from war to the new normal with the least jar, in the shortest time?"

Many other words have been substituted for "war" over the years: the dot-com bubble, the global financial crisis, and most recently the COVID-19 pandemic. Commentators repeatedly invoke "the new normal," wondering, like that inventor, how economic, cultural and social conditions can return to a standard state of affairs "with the least jar, in the shortest time."

Yet, as José Luis Nueno suggests in our report on retail, things never were "normal" in the first place: "The only thing 'normal' is a continuous series of shocks and disruptions." Victor Martinez de Albeniz, who presents practical findings from his research on using data to optimize retail operations, elaborates: "The retail industry has always been fraught with blood, sweat and tears." To wit: around the time Henry A. Wise Wood was postulating about a post-war "new normal," Sears was busy disrupting retail with its mail-order catalog business no less transformative than the e-commerce revolution of Amazon decades later. Nueno gives his "normal" advice for such times: "Adapt, evolve and reinvent yourself to survive." Otherwise, you may end up like Sears: bankrupt, despite a century of success. The research of these and other IESE professors will help readers navigate these turbulent waters.

Our report contains expert insights from leading figures in retail, including Dimas Gimeno, the former head of El Corte Inglés, and Oscar Garcia Maceiras, the new CEO of Inditex. And three leaders in fashion retail – Eva Kruse (Pangaia), Claire Bergkamp (Textile Exchange, formerly at Stella McCartney) and Andrea Baldo (Ganni) – discuss the necessary steps that must be taken on the long road toward sustainability.

Our magazine is full of stories illustrating this need to "adapt, evolve and reinvent." Whether it's reinventing investment, turning personal adversity into opportunity, being resilient or rising to life's challenges, our featured executives show a better world is possible, if you so choose.

But don't regret your choices, as Johannes Müller-Trede advises from his research. Rather than second-guessing yourself, embrace your choice without misgivings, resting assured that you made the best decision with the information you had at the time, and keep learning for next time. Continuous learning and growth are what we at IESE consider to be "normal," no matter the times. May the research-backed tips in this magazine help you deal with today's disruptions "with the least jar, in the shortest time."


If the Smith family is sustainable, their energy should be sustainable too.
Everyone has changed. Including us. That's why, over the last four years, we've increased our production of renewable energy by 133% and we've reduced our CO2 direct emissions by 37%.
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REPORT

Retail Revolu

As online and offline shopping blur into one, here is how retailers can prepare for an omnichannel future


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"One of the biggest constraints on consumption is when consumers stay home. If customers no longer visit stores on a regular basis, they increasingly buy online. This demands a multichannel strategy that uses every possible channel – e-commerce, smartphones, social media and reinvented physical stores – to keep the customer surprised and deliver a seamless shopping experience."

So wrote IESE professor Jose Luis Nueno in his 2013 *IESE Insight* article, "The decline of Main Street, the rise of multichannel retail." At the time, he was describing the retail landscape six years after the 2008 global financial crisis. But he might as well have been describing today.

We share tips from industry experts on how to face the future with tenacity, flexibility and agility

The fact that this situation was evident in retail a decade ago helps explain the choice of title for Nueno's recently published book, *Never Normal*. Because even though the 2020 pandemic was an abnormal event, its effects on retail will come as no surprise to anyone who has been paying attention. Now, as the world talks about getting back to normal, Nueno says we'd be better off accepting that "normal" doesn't exist: "If the last two years have taught us anything, it's that the only thing 'normal' is a continuous series of shocks and disruptions, and the disruptive forces that have been particularly difficult for retailers over the past decade are not going away; the only 'normal' thing to do is adapt, evolve and reinvent yourself to survive."

In this report, we look at some of main forces shaping retail, of which the pandemic was only the latest, sharpest shock. Of those forces, technology and digitalization have certainly played *a*, if not *the*, defining role, and we highlight how retailers can use tech to their advantage, based on IESE research. We also consider how those forces play out in different cultural contexts. We share tips from industry experts on how to face the future with tenacity, flexibility and agility. Because even among those retailers who may have prospered during the pandemic (supermarkets) as well as those who are

Then and now

These retail trends, which IESE professor Jose Luis Nueno identified in 2013, are even more relevant today and will be so for the near future.

Home deliveries/services

Teleworking creates new demand for existing services, such as home-delivered meals and goods, as well as ICT services to replicate those of the corporate environment.

Click-and-collect

Physical stores serve as pickup and return points for goods purchased online, so customers avoid personal contact and waits.

Shoppable windows

People can buy products via interactive touchscreens and have them delivered to their home.

M-commerce

Smartphones become the locus for searching information, discovering products, comparing prices, checking availability, sharing opinions, making payments, tracking deliveries and maintaining after-sales contact.

Pop-ups

Here-today-gone-tomorrow showrooms in novel locations for seasonal items or new experiences.

For more trends, see the infographic in this report.

seeing business roaring back to pre-pandemic levels (restaurants, hotels, airlines) we appreciate, now more than ever, that life can turn on a dime. War, geopolitical divisions and inflation, on top of unpredictable coronavirus variants, mean anything can happen anytime, so having the right competencies counts as much as the right strategies for facing the challenges ahead.

Forces shaping retail

Long before 2020, business pundits were warning of a Retail Apocalypse, mainly due to the rise of e-commerce, which threatened to put many traditional retailers out of business. Particularly for small and medium-sized retailers, the outlays required to invest in online operations in addition to their physical stores were just not viable, especially when online sales growth was not (and in some cases, still isn't) high enough to justify the extra expenditure. "Multichannel" meant "being all things to all people," a move that some retailers regarded as spreading themselves too thin at a time when the rewards of doing so were also seemingly thin.

Time has proven that the shift to e-commerce, for those who managed to do so, was none too soon. The 2020 lockdowns prompted an overnight shift to online purchasing and delivery of goods and services. As a spokeswoman for the United Nations Conference on Trade and Development remarked, "Businesses and consumers that were able to 'go digital' helped mitigate the economic downturn caused by the pandemic ... and they have also sped up a digital transition."

Yet there's more to this digital transition than meets the eye. It's not clear whether the e-commerce boom provoked by the pandemic was a one-off phenomenon, and pent-up consumers will revert to shopping in stores as soon as they're given the chance, which is what we've seen so far since lockdowns eased.

Retail by phases

Where we've come from, where we've just been, and where next...

Phase 1	**Talk of Retail Apocalypse**	• Traditional retail struggling due to discounters, online competition, changing demographics and unsustainable growth, but not catastrophic yet
Phase 2	**COVID-19 lockdowns**	• Everything except essential retailers forced to close • A complete break from old shopping patterns • The Great Dispersion: asynchronous shopping activity • Triumph of delivery and local stores
Phase 3	**Vaccination campaigns**	• Slow re-openings • Staggered recovery due to lack of stock • Consolidation of online channels
Phase 4	**Start of recovery**	• Return of physical sales as people flock back to the shops, but more fragmented now • With regard to e-commerce, a case of 3 steps forward, 1 step back
Phase 5	**Resumption of previous shopping habits but with changes**	• Peaks (pent-up demand/money saved over 2 years now being spent) but also troughs (people have different priorities, spending less on things than they did before, having realized they can do without)
Phase 6	**Repositioning**	• Cost of living crisis, threat of recession • Less discretionary spending: consumers either won't buy, they'll buy cheaper products, or they'll shop in discount stores • Sacrifices to sustainability agenda?

As Nueno points out, it wasn't the average shopper on the street who was warning of an impending Retail Apocalypse but rather the stock market analyst. "And interestingly, if you look at European retailers listed on the stock market that weren't purely digital businesses, you find they have outperformed the rest of the traditional indexes by almost 300% over the past decade. With a few exceptions (like Amazon, Zalando, Alibaba or Shein), pure online retailers remain unprofitable, with their growth rates propped up by investors."

Indeed, until 2020, consumer spending in physical stores was still predicted to outperform online sales until 2030. Besides books, music and video, no other retail category has achieved more than half its sales through e-commerce alone, and even for those that have, it has taken 20 years to get there.

This is not to dismiss e-commerce as a major force affecting retail. Certainly, it is. But as Nueno urges, we need to dig deeper to get at the forces driving e-commerce; otherwise, the temptation would be to pile all your resources into online sales at the expense of everything else, which could be counterproductive.

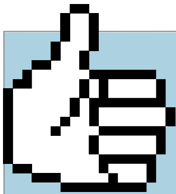
Digging deeper

Pandemic aside, perhaps the bigger disruptive force dictating the future of retail is demographics – namely, millennials and Generation Z, who make up major segments of the world's population, most of all in Asia, which has six times the number of millennials as the United States and Europe combined. They are prone to purchase for experiences and according to values such as sustainability. They are also used to buying online and paying via smartphone. It will be this consumer reality that ultimately drives the future of retail.

Does that mean it is time to wholesale embrace m-commerce, for example? That depends on what your consumer base is telling you. A 2021 IESE survey of 1,646 online shoppers representing Gen Z, millennials and Gen X in Spain found a sizeable 75% had bought items over the past year via their mobile phones. Thus, a Spanish retailer that doesn't have a mobile-friendly option (let alone any form of online store presence) may find such a statistic galvanizing in a way that a different retailer, subject to different market forces, may not.

In reading market forces, the key for retailers is to think twice before jumping on bandwagons or riding whatever the current wave seems to be. For instance, when doomsayers were predicting a Retail Apocalypse a decade ago, it was mainly in reaction to the rise of Amazon. But the business takeaway is not for all retailers to jump on board Amazon. Rather, it's to reassess your own market landscape and make strategic choices befitting you. (As Nueno says later in his column, setting up your own direct-to-consumer channel may be more profitable and necessary than selling via Amazon.)

Phil Douty is Global VP, Intent xChange, at Intent HQ, the customer intelligence platform that sponsors an IESE Chair, currently held by Nueno, on Changing Consumer Behavior. As Douty told Mobile World Capital Barcelona 2021, market metrics have changed dramatically in recent years, making it more important than ever to get to grips with them: "Under every current trend there are typically other things going on that are driving the behaviors that you see on the surface. Take the trend of people going back to the office: employers would like to think it is because they love the office environment or because they want to be with their

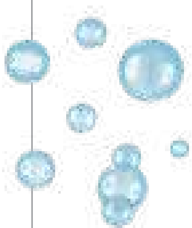


Winners:
continue to grow and will remain part of consumer habits going forward

- Food delivery is "rookie of the year"
- Telemedicine
- Video streaming & home entertainment
- Any category or brand that can be digitalized and doesn't depend on habitual shopping schedules

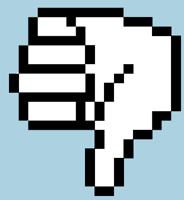
Phoenixes:
fell but now resurging

- Consumer electronics & household goods
- Beauty & cosmetics
- Travel & hospitality



Bubbles:
grew for a time but will revert to previous levels

- Hygiene & pharmacy products
- Food & beverage at home and kitchenware



Losers:
fell and will have difficulty recovering

- Pure brick-and-mortar retailers tied to physical presence, such as those located in commercial zones that depend on offices and commuting

SOURCE: Based on a 2020/21 study of the online searches of 14 million people, by J.L. Nueno and Alfonso Urien of the Centre for Data Insights, a partnership between IESE and Intent HQ.

colleagues, but for some people it is the opening of bars and restaurants that is one of the drivers returning them to the office. That's what I mean by getting under the skin of the trends that you see: groups of people may collectively exhibit the same behavior but actually for very different reasons."

"Likewise, when you look at behavioral segmentations, there are groups of people for whom 'service' means very different things. For example, somebody working from home prizes certain aspects of IT service in a very different way from somebody who uses their IT system for gaming. Different cohorts of consumers will value different things about your service in different ways. What's good service to one group is bad service to the other, and vice versa."

Referring back to the behavior of online shoppers in Spain, that same survey found 64% wouldn't pay more for an environmentally friendly product or service, and of those who would, most wouldn't go beyond a 10% price premium. This, despite the majority of that same generational cohort expressing concerns about climate change and the environment. What's the conclusion to be drawn here? Proof that retailers should abandon efforts to go green? Not by a long shot! (See the interview with Claire Bergkamp, Eva Kruse and Andrea Baldo for more on this point.)

Douty insists, "It's really important to understand the differences in order to be able to produce the outcome that each of those distinct cohorts of customers might wish to see from you."

Making the most of data

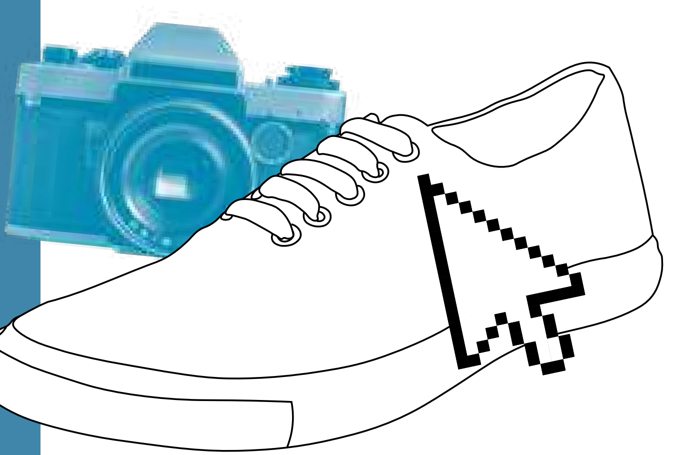
Getting under the skin of today's trends to tease out the nuances of consumer behavior is what Intent HQ specializes in, using proprietary AI to glean customer insights for business clients. "Data is no longer generated as an 'exhaust' of the way we live our lives but *is* actually the way we live our lives. The management of near real-time data and data insights has got to the stage where every company can be data-centric in its decision-making, provided it harvests and harnesses that data in the right way," says Douty. "The issue is no longer tech-related but an operational one to manage and interpret the signals."

IESE professor Victor Martinez de Albeniz agrees. He has done extensive research on using data to optimize operations in retail, particularly within the fashion industry. "For the first time in history," he says, "retailers have the opportunity to understand and predict customer behavior at a granular level, tracking every click and every step of each individual at all places, and gathering data not only on their interests, decision processes and purchases but on their plans and *intent* of purchases."

Armed with such information, retailers can see how products are performing in real time and make price adjustments that better match supply and demand, boosting profits in the process. To demonstrate this, Martinez de Albeniz studied "flash sale" retailers. These are not platforms like Amazon that stock third-party goods and occasionally offer sales; these are online outlets that *only* sell discounted goods for third parties that are trying to get rid of their out-of-season inventory. Players in this space include the Chinese leader Vipshop, the European leader Veepee (formerly Vente-Privee) and American players such as Rue La La, Zulily or Gilt. They're called "flash sales" because products are sold fast for a very short period of time, maybe three to seven days, until stocks run out. These retailers do not control their own inventory, and demand is extremely volatile, which makes what they do control – pricing – a key lever. Despite that, few seem to adjust their prices much during their sales campaigns.

Here is where data can help. Martinez de Albeniz and his co-authors built a model that they validated with real data from a leading flash sales retailer in Western countries, using hourly events over three years. They used clickstream data – that is, all the clicks made by a potential customer, between arrival to the website and visiting a particular campaign, between visiting a campaign and interest in a particular product, even when there was no final purchase of that product. This is key, because it shows the rich insights that retailers can still learn about visitors to their website, enabling them to forecast probable actions that those visitors might take during the shopping process, and thereby take corrective actions. So, by breaking down each step in the buyer journey, retailers can determine whether a better product description, a more attractive image or even the time of day, for example, would improve the conversion rate from campaign visit to product click. Then, they can apply adjustments within hours, and measure the impact of those interventions.

In their study, published in *Production and Operations Management*, the authors discerned the optimal price adjustments to make, and when, for different products, both those selling zero units and those about to sell out. In this way, retailers can "set prices so that supply and demand are more closely matched." So, for a lower selling item, a price increase of 58-65% could improve profits by 12-16%, whereas for a high-demand item likely to sell out, a steep price increase (94% on average) would result in the strongest profit improvement (73%) according to their study of 10 campaigns involving 4,512 products. If their pricing recommendations were applied across the board, the total revenue increase would be 27%.



Data-based decision-making can make retail more efficient and profitable

The authors note that their model's applicability is not restricted to online retailing: "We can apply a similar approach to choices made in physical stores, where customers follow a predefined shopping funnel from the main entrance to the checkout, taking sequence-dependent actions."

Despite compelling evidence that data-based decision-making can make retail operations more efficient and profitable, many retailers remain slow to change their old ways – at their loss. This is highlighted in other research by Martinez de Albeniz's operations department colleague Anna Saez de Tejada Cuenca, with UCLA Anderson's Felipe Caro. They studied managers' use of algorithm-based decision support systems (DSS) for seven clearance markdown campaigns at Zara. The algorithm made recommendations, but it was up to the human managers to adopt or override them.

In a pilot test, Zara found that managers who followed the DSS recommendations increased revenue from clearance sales by almost 6%. That led Zara to roll out use of DSS across its stores and franchises worldwide. But then something changed: managers started ignoring the DSS recommendations, sometimes more than half the time; moreover, they would lower prices when the system recommended keeping them the same, or they would apply more aggressive markdowns than what was recommended. The result: sales revenues were less than expected.

What happened? Human biases kicked in. Specifically, managers were used to receiving weekly reports showing current inventory levels and they typically made decisions aimed at ensuring that nearly all remaining stock was sold as soon as possible. The DSS, however, made recommendations with the goal that overall revenue would be higher at the end of clearance sales, and that could mean more conservative markdowns in the initial periods. Yet, if managers' attention was focused on inventory, then they naturally ignored the algorithm. Zara was not alone in experiencing this: past research involving a consumer electronics firm found its managers overrode DSS recommendations more than 80% of the time, also for peculiar human reasons.

"It is critical that we understand how human decision-makers interact with such tools to design them in a way that entices managers to adhere to their recommendations," insists Saez de Tejada. Namely:

- **Status quo bias:** Recognizing that humans are generally reluctant to change, analytics tools should make clear the logics behind the recommendations, especially those that deviate from the previously accepted rule of thumb. Decisions can be benchmarked from one season to the next, so managers can see the performance of the new action taken compared with decisions made the old way. This can help educate managers to accept changes and build trust in the DSS.
- **Salience:** Figure out what the salient metrics are for managers (inventory vs. revenue). If actions seem counterintuitive (e.g., less aggressive markdowns may lead to slower sales but more revenue overall), these can be explained and supplemented with additional dashboards that compare/contrast the forecasts of different actions according to the salient goal.
- **The cost of attention:** Managers only have so much cognitive capacity. The DSS should simplify choices as much as possible, so managers don't have to track vast reams of data across hundreds of different categories or

We need to design decision support systems to entice managers to adhere to their recommendations

Anna Saez de Tejada Cuenca
researches what happens when retailers ignore the pricing recommendations of algorithms

Victor Martinez de Albeniz
has done extensive research on using data to optimize operations in retail

For the first time in history, retailers can predict customer behavior at a granular level

make too many choices simultaneously. Although Zara managers understood that the DSS was a tool to simplify their lives, the majority were more likely to deviate from the tool's output when they were overwhelmed with too many pricing recommendations to check.

In light of these biases, Zara subsequently revised its dashboards, with better results. "Providing not only feedback on managers' realized revenue, but also making such feedback more interpretable, had a strong, positive effect, increasing the adherence of those who used to override the tool the most," state the authors.

Cultural dynamics

Salience is a keyword for retail, especially when operating in diverse markets around the world and determining which features of your retail strategy will be most salient to a particular market. There's no one-size-fits-all approach. What works in the United States may not resonate in Japan.

This emerged in research by IESE marketing professor Elena Reutskaja. The received wisdom is that consumers today suffer from too much choice, paralyzing them at the moment of truth. This has led some retailers to reduce their product lines in the belief that offering fewer products can boost the sales of those that remain. The pandemic encouraged further moves in this direction. Supply-chain disruptions and stockouts forced many to pare down their offerings. And as retailers come under mounting pressure to trace the supply chains of each and every product in order to fulfill

ESG reporting requirements, having fewer products makes that job easier.

Despite the arguments in favor of reducing choice, Reutskaja raises some important qualifiers. The idea that too much choice necessarily leads to consumer dissatisfaction is largely a U.S. phenomenon, and even then, it depends on *what* choice: being spoiled for choice of soft drinks is not the same as a choice of jobs, schools or doctors.

The idea that too much choice necessarily leads to consumer dissatisfaction is largely a U.S. phenomenon

Elena Reutskaja
researches the dynamics of consumer choice

Reutskaja and her coauthors studied 7,400 participants from six countries that collectively represent nearly half the world's population: Brazil, China, India, Japan, Russia and the United States. Besides trying to quantify the relative dissatisfaction of too much or too little choice in those different markets, she distinguished between commercial choices and consequential ones, as just described.

So, while too much choice was primarily a U.S. problem and mainly in commercial domains, that finding did not hold true across the board. In Japan, for example, a huge number of commercial offerings didn't actually result in feeling overwhelmed; and in other countries, consumers were not as dissatisfied as when choice was in short supply. Overall, too little choice was the bigger problem than too much choice, especially when it came to consequential choices.

For retailers operating globally, it's worth remembering to contextualize product offerings, as the link between the number of choices and subsequent (dis)satisfaction may have a cultural dimension. When making strategic decisions to cut, keep or expand SKUs, consider the cultural nuances surrounding choice. As with everything, retailers need to drill deeper to get at the underlying forces at play.

Expanding on this point, Nueno adds that, while Western retailers grapple with the digitalization of their physical operations, in Asia it is largely the opposite problem: many Asian retailers launched digitally, without any legacy stores, so there the omnichannel model poses distinct challenges related to the establishment of physical touchpoints.

Key competencies

Managing both physical and digital channels. Determining pricing strategies amid inflation. Using tech to personalize offers. Minimizing supply-chain disruptions. Differentiating the brand. Moving to an omnichannel model. And making the staffing and organizational changes necessary to

> **The seamless integration of both physical and digital channels is the next iteration of omnichannel.**

Dimas Gimeno
Former head of Spain's leading retailer El Corte Inglés, founded the WOW concept store in Madrid and also leads the investment firm Kapita, which targets retail-related tech projects.

The future is phygital

Although retailers have been talking about omnichannel since 2010, the vast majority of trade remains physical. Even among those who claimed to be omnichannel, they really weren't. Instead, what we saw were attempts to add some digital component to the legacy physical store operation. But there wasn't a paradigm shift of actually merging physical and digital assets under a single, integrated vision, because changing existing systems and processes, and selecting and training new profiles to manage them, represent an uphill battle.

However, there's no getting away from the fact that digital connection is what characterizes today's consumers, with e-commerce providing access to goods and services like physical stores used to. The retail of today and tomorrow must focus on two vectors: the emotional connection (with the brand, product, service or experience) and the digital one (a seamless integration of both physical and digital channels). I call this "phygital." This thinking was behind the launch of WOW, which I like to define as a phygital experience platform.

I consider phygital to be the next iteration of omnichannel. This time, the integration is being done from the digital side, with physical assets (points of sale) adding the value. That changes the perspective. Web and mobile apps let customers project the digital environment onto the physical store. People go to the store with their digital baskets, read and share QR codes, live-stream their shopping and interact with others via social networks (Live Shopping) – all of which enriches the shopping experience as buyers and sellers both gain more information about each other.

Phygital is not just for the larger stores but also applies to small and medium-sized retailers. Ignoring the digital reality will put you at a disadvantage with those that have the digital side that all customers have come to expect. Indeed, going phygital could even be easier for smaller retailers versus those with large, established operations. Apart from the necessary financial investment, the important thing is to transform your culture into an authentic phygital one. Whether starting with physical or digital, your transformation must reach all employees and ensure no cracks in the customer experience.

deliver on all these priorities. Managing all these factors in a highly uncertain business environment makes the CEO agenda more daunting than ever, as confirmed by an IESE survey of Spanish business leaders.

Yet, viewed another way, none of this is new. The history of business in general and retail in particular has always been a case of survival of the fittest. "The retail industry has always been fraught with blood, sweat and tears, forcing retailers to remain creative and innovative or perish," says Martinez de Albeniz, echoing the same sentiment of Nueno's book, *Never Normal*.

"The retail process has undergone significant transformation since the 1800s. The 'best practices' constantly change, driven by rents, labor and logistics, as well as the appearance of new technologies that change both the nature of the work to be performed and the nature of the 'winning' store format. Given its intricate connection to external conditions, retail never has any choice but to adapt or go extinct."

As such, Martinez de Albeniz and Nueno highlight three enduring competencies for retailers, inspired by Stanford's Hau Lee, whose influential research on what truly great companies do to stay ahead of their rivals remains as relevant as ever.

Agility. Rapid adoption of innovations for store management together with a flexible, opportunistic market strategy are keys to survival. This does not mean sacrificing a strong brand identity rooted in a steady purpose. It means constantly scanning the external environment to detect new consumer needs and new operational processes, and then being able to respond quickly to sudden, unexpected changes in demand. (See the interview with Oscar Garcia Maceiras for how Inditex uses technology to be more agile.)

Adaptability. If agility is about your rapid ability to respond to demand shocks like COVID-19, adaptability is about adjusting complex systems – like the supply chain, organizational assets (factories, warehouses, logistics, stores) and technologies – in a reasonable amount of time so as to be fit for the future. The shift to omnichannel, for example, is something that no retailer can ignore, and they need to be moving their organizations, people and cultures in that direction sooner rather than later.

Alignment. The omnichannel reality, and the intermingling of physical and digital realms, will require a corresponding intermingling of many departmental roles that were previously discrete. Marketing, sales and operations, for example, must work in close alignment, reflecting the changed nature of the customer journey. (This came out in the survey of Spanish CEOs.) Being agile and adaptable is much harder

Turning points

Throughout history, retail has always evolved.

Mail order sets the stage for e-commerce

- Orders placed by customers for delivery
- Costs of physical stores avoided
- Excess inventory controlled

2000 B.C.	A.D. 1455	18th century	19th century	1892	Post-WW2	1954	1983
Merchant networks of fabric and tin in Assyria	**Grand Bazaar, Istanbul** Retail clusters in cities Factories and workshops co-located with points of sale	**Industrial Revolution** Delocalization of production away from cities	Rise of middle-class consumers Advent of department stores	Sears mail-order business	Aspirational retail allied with American Dream Spread of suburbs and cars dictate retail formats	First shopping mall opens in Detroit	Internet is born

to achieve without organizational alignment, which ensures that everyone is rowing in the same direction.

These so-called Triple A's will likely carry retailers through whatever new challenges lie ahead.

The good news, as Nueno notes, is that the retail sector continues to show remarkable resilience. "The debate is not between physical and online stores but rather what is the role of stores: Collection points? Showrooms? Local distribution centers? Places for experiences? Just as stores cannot be understood without some form of e-commerce, neither will it be possible to deliver on e-commerce without the logistical efficiency and the capacity to create strong brands that large stores are capable of."

"What the post-pandemic period has made clear is that there are not two groups of consumers: those who will go back to stores and those who will only shop online. The pandemic has served to create a critical mass of consumers who are now disposed to do both. More than the fact of an e-commerce option is the consumer expectation that there will be such an option, and there will be little future for any retailer that denies its customers the possibility of buying whatever they want, via any channel they want, whenever they want. This omnichannel reality is something retailers will have to reckon with." Are you ready? ■

1995	2000s	2010s	2020
Amazon and eBay founded	Online retail serves the long tail of consumer needs that mass retailers ignore Store removed as point of interaction with customers	**Retail Apocalypse** Traditional stores struggle to compete with online channels	Pandemic forces store closures Shopping malls face existential questions **What next?**

Further reading

Never Normal by J.L. Nueno (AECOC, 2022) and *Direct to Consumer* (AECOC, 2020).

"The decline of Main Street, the rise of multichannel retail" by J.L. Nueno, *IESE Insight* Issue 19, Q4 2013.

High-Energy Retail, forthcoming book by Victor Martinez de Albeniz.

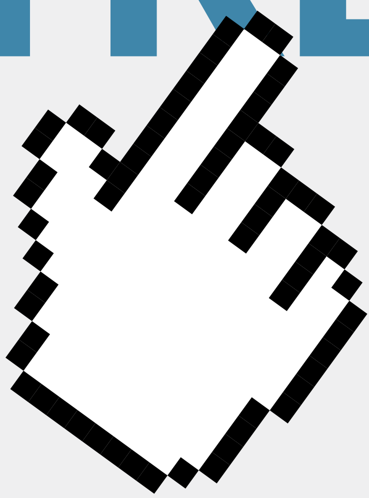
"Using clickstream data to improve flash sales effectiveness," by Victor Martinez de Albeniz, Arnau Planas and Stefano Nasini, is published in *Production and Operations Management* (2020).

"Believing in analytics: managers' adherence to price recommendations from a DSS," by Felipe Caro and Anna Saez de Tejada Cuenca, is forthcoming in *Manufacturing & Service Operations Management*.

"Choice deprivation, choice overload and satisfaction with choices across six nations," by Elena Reutskaja, Nathan N. Cheek, Sheena Iyengar and Barry Schwartz, is published in the *Journal of International Marketing* (2022).

"Scenario planning in high-uncertainty environments: the disruption matrix" (MN-405-E), by Carlos Costa and J.L. Nueno, is a framework for companies to develop their own medium-term scenarios and design action plans to tackle the main management trends related to digitalization, omnichannel operations, organizational agility, brand-building and sustainability in a post-COVID world. It is available from www.iesepublishing.com.

RETAIL TRENDS



01 THE FUTURE IS VOLATILE

STRONG BRANDS
Inflationary pressures benefit private labels in many cases, though strong name brands that innovate and add value are likely to be recession-proof.

FAST DELIVERY
From 48-hour to 24-hour to almost instantaneous, customers demand speed. Can your business keep up? How will you manage wait times and customer expectations? Could "slow" models become the new fast?

CLARITY OF PURPOSE
Consumers want to know who is behind their products and what their values are. Cultivating a stable purpose will make your business more sustainable.

DEMAND SHOCKS
Just as grocers flourished while the hospitality industry crashed in 2020, sudden and surprising peaks and troughs in supply and demand are likely to continue for the foreseeable future, not only as a result of the pandemic but from the climate crisis.

02 THE FUTURE IS OMNICHANNEL

VALUE-ADDED BRICK-AND-MORTAR

Fewer physical stores, but those that remain will evolve into showrooms for connection, discovery and/or collection.

THE METAVERSE

Though we're not here yet, virtual reality (VR) tech may let brands experiment and learn from customers, allowing them to try out new goods virtually, for example, and offering more sensory experiences. Watch this space!

CLICK-AND-COLLECT

For those who like the convenience of online shopping, but prefer to pick up goods at the store, curbside or from a locker, without waiting at home for delivery. This also saves logistics costs for the retailer, with one or a few drop-off point(s) rather than many delivery locations.

SEAMLESS EXPERIENCES

Customers want to be able to shop in-store and online; to try things on in-person and buy things sight unseen, knowing they can always return them. Customers prioritize convenience, whether of sales, pickups or returns. On- and offline channels need to be fully integrated.

03 THE FUTURE IS PERSONAL

SHOP LOCAL

As consumers rally to save local businesses from pandemic-provoked closures, and as sky-high gas prices make driving less desirable, shopping in your local community becomes added value. Big stores can benefit, too, creating boutique presences in key neighborhoods.

SUBSCRIPTION MODELS

The subscription model, selling everything from movies to clothing, can help brands curate customer experiences. But, as we've seen with Netflix, beware the slide into too much undifferentiated content. When times are tight, consumers cut subscriptions that don't add value.

ON-DEMAND MANUFACTURING

This affords opportunities to eliminate overproduction, redundancy and waste in supply chains.

CUSTOMIZATION

From clothing to video games, brands are directly engaging with and seeking input from users for co-creating products tailored to their specific needs.

Photos courtesy of Inditex

Oscar Garcia Maceiras
CEO of Inditex since November 2021, the same year he joined the company as its general counsel and board secretary. A Spanish State Attorney in his home region of Galicia (where Inditex is based), he comes with over 20 years' experience in legal affairs. He did a PDD at IESE in 2008 and is currently pursuing a PhD in International Law.

Creativity, emotion and surprise underpin everything we do

Coming from a background in legal affairs and finance, Oscar Garcia Maceiras faced a change of pace when, in 2021, he moved to the customer-facing world of retail. He now heads Inditex, the Spanish fashion conglomerate famous for Zara. After the economic havoc wrought by COVID-19, like many retailers Inditex has seen "a significant rebound in traffic to stores," he reported in June 2022, noting that net income had increased 80% to 760 million euros during Q1 2022 compared to the same period of the previous year. Here, he discusses the success factors of retail at a time when customers and the global outlook are more demanding than ever.

How are you adapting to the changing needs and buying habits of customers? And what's the role of technology in this?

This is a moment of profound transformation, which demands creative thinking from retailers as a whole. At Inditex, we've always tried to put the latest technologies at the service of the business model. Technology is key to understanding our customers in order to offer them the products they need and want at just the right moment. And technology has enabled online sales, which now account for 25% of our total sales and are forecast to reach 30% by 2024.

Technology doesn't mean abandoning the physical store, however, which is a technological space just as much as our online sales channels. We're committed to integrating physical and online channels, which are two sides of the same coin. Put simply, physical and online spaces shouldn't be in competition with each other, they should be generating synergies.

A good example is the flagship Zara store that we inaugurated in April 2022 in Madrid. It incorporates the latest technologies available to improve the shopping experience. For example, customers can use the Zara app to geolocate products or book a fitting room. There are self-checkouts and automatic collection for purchases made online. Technology facilitates an integrated inventory management system so that online orders are expedited with maximum efficiency.

Which factors are fundamental to success in retail?
In the case of Inditex, I would say four: the quality of the offer, which is born from a combination of creativity and listening to customer needs; a continuous effort to make the shopping experience unique; sustainability, which should be present throughout the value chain and in the worldview of the company; and, most of all, people.

"Physical and online spaces shouldn't be in competition with each other, they should be generating synergies"

At Inditex, that means 165,000 people of 177 nationalities, 76% of which are women who in 2021 held 81% of our management positions. We try to make sure that all these people, who are so different from each other, can develop their passions and keep improving themselves.

Equally important to attracting talent through specific recruitment programs is retaining that talent by providing opportunities for continuous learning and growth within the company, and with training in our corporate culture and values. Through our Changemakers program, for example, we develop and equip certain employees to become ambassadors for our corporate strategy of sustainability within every one of our more than 6,400 stores worldwide.

Where does sustainability fit?
Sustainability affects all processes, decisions and projects. We're following a very rigorous roadmap to reach 100% renewable energy in operations, as well as sustainable fibers and materials. The goal is to reach net zero by 2040.

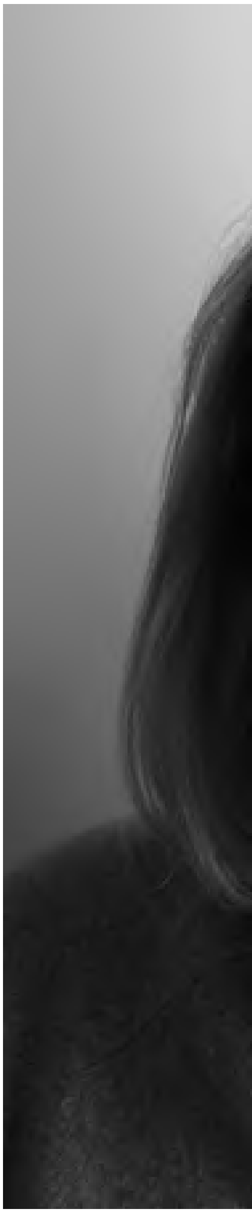
To get to net zero, it's essential to invest in innovation and research. For us, this includes our Sustainability Innovation Hub, an open platform to develop new materials and industrial processes. We've also made significant agreements to acquire recycled textile fibers, including an agreement of over 100 million euros with the Infinited Fiber Company. In terms of research, we collaborate with leading universities such as MIT. And we have recently invested, for the first time, in a startup, Circ, which has technology to enable large-scale textile recycling.

How can retailers encourage more social and environmental responsibility in their operations?

Speaking from the perspective of Inditex, by becoming an agent of change. We are very demanding of our suppliers and try to bring them along with us as we seek to raise environmental and social standards. We want to lead the transformation of the industry through responsible management in collaboration with a good number of organizations, including IndustriALL, the international trade union federation with which we have a pioneering Global Framework Agreement to put the worker at the center, promote continuous social dialogue and ensure optimal labor standards.

What's the key to keep reaching customers who are more informed and demanding than ever before?

There's no infallible formula but it helps to have a model that prioritizes listening to customer needs, along with a top-level design team (of 700 professionals, in our case). Our brands all pursue the same goal: to offer the best products to our customers. Creativity, emotion and surprise underpin everything we do – from the shopping experience, to the strategy of sustainability, to our community relationships, to the workplace environment that we provide. ■



Eva Kruse
Senior Vice President of Impact for Pangaia.
www.pangaia.com

CHANGING THE SYSTEM

Changing the retail model must be driven by management. Although there is a segment of consumers who will buy on the basis of sustainability, for the most part, such demand isn't enough to make retailers deviate from the existing model of disposable overproduction. Which is not to say that sustainable retail cannot be profitable, but it takes greater imagination.

This is where Claire Bergkamp and Eva Kruse come in. Bergkamp helps retailers improve their sourcing practices to reduce emissions in the raw material production phase by 45% by 2030. Kruse works with scientists to develop responsible replacements for existing materials, including a bio-based replacement for nylon. Both of these leading sustainability advocates shared the big changes on the horizon for retail as part of an MBA course on "Strategic Management in the

Claire Bergkamp
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www.textileexchange.org

Fashion and Luxury Goods Industry," taught by IESE professor Fabrizio Ferraro and Andrea Baldo, CEO of Ganni (www.ganni.com). Here is what the future holds for retailers, according to Bergkamp, Kruse and Baldo.

Aren't companies already working to reduce their energy use and carbon footprints?

CB: There have been efforts to reduce *downstream* emissions – those at Tier 1 where products are finished and distributed to consumers. But the Tier 1 stage accounts for only around 9% of the overall environmental impact. The vast majority of the impact lies *upstream* in Tier 2, where fabrics are made, at 52%; in Tier 3, the processing of raw materials, at 15%; and in Tier 4, the cultivation and extraction of raw materials, at 24%. That is why we work with organizations to address the earliest parts of the chain: how cotton is grown, the cutting down of forests, the turning of raw materials into fibers. Many know their Tier 1 but very few know beyond that. And that is where the largest challenges and opportunities lie. We prefer to talk about Climate+. It's not only about reducing greenhouse gas emissions and recycling waste but thinking about how to prevent waste from being generated in the first place. It's a whole system change.

How do we do that?

CB: First, we have to slow growth. This is not something that brands like to talk about, but it is an absolute necessity. Right now, we are around a 3% year-on-year growth of new fibers and materials coming into the marketplace. We are not going to hit climate reduction targets unless we slow that to at least 1%.

EK: I agree, we must decouple growth from volume growth of new product.

How is it possible to increase profitability without producing more product?

EK: Circularity is key. Repair, remake, reuse, resale and rental models provide a lot of opportunity. Making many more transactions on the same product is an emerging market that companies need to explore. If I can sell the same T-shirt five times, why wouldn't I want to do that, instead of producing five new ones? It's thinking about how to continuously create more value but decoupled from just producing more units. This is the trend of the future.

CB: Material substitutions are another important lever. So, taking things that already exist and regenerating them. By that, I don't just mean taking waste, like plastic water bottles, and turning that into polyester, because that polyester is not recyclable, and so you are just extending a waste stream instead of closing it, which is what we really need to do. Currently, only around 1% of textiles are recycled back into textiles. Polyesters are by far the most used material in the world, accounting for around 52% of all the fibers used annually, and while 14% are recycled, that comes mainly from discarded plastic water bottles. To get beyond 14%, we are going to have to figure out a new feedstock.

Where does the incentive come from?

EK: In Denmark, as in other countries, we have a deposit scheme for bottles. You pay a little bit extra when you buy bottled drinks, and you get that money back when you bring the empty bottle back for recycling. I believe we should have takeback systems like that for every product we use, whether household goods or clothes, which incentivize us to extend the life of goods instead of them ending up in landfills. Here is where we really need policymakers to pass regulation that would require everyone to collect way more waste than they do now.

CB: Legislation would help. The biggest legislative push right now is on transparency, traceability and footprinting, which is going to become mandatory in the not-too-distant future. In my previous job at Stella McCartney, I was involved in product environmental footprinting to try to create a label for fashion akin to the energy star rating when you buy an appliance. What such a rating does, in theory, is start to cut out the worst offenders. In electronics, the very low rated products have started to disappear completely. And whereas the top mark used to be A, now you have A+, so it also starts to push the bar higher. Granted, measuring the fashion footprint is not as simple as measuring how much electricity you're using when you plug something in. As I said before, what we really need is a lower impact replacement for polyester and conventional cotton, and which regenerates soil health and pays farmers well. Legislators are still trying to grapple with this, but one way or another, we're going to see footprinting and a change in the way the market is regulated. Governments, especially in Europe, want clarity to protect consumers – not vague claims of something being sustainable but *provable impact*. Cutting out greenwashing is where governments are moving. Legislation is ramping up.

Are companies ready for this?

CB: If you don't know where or how your things are being made, that's a red flag. We would like to think that is not happening but there are still places in the world where that is the case. If CEOs took just a third of the time they take to understand their retail strategy to understand their impact – acquiring full knowledge and control of their *entire* value chain – we would be in a very different place. Is this a concern of your top management? Is sustainability something that has been sidelined or is it a core mandate of your company? Because it should be. It's well past time, for any company operating today, to consider their impact on humans and the planet as a side topic. The people in charge of making the decisions – the CEOs, the boards – need to wrap their heads around this.

EK: It's really a management decision as to how much they want to push the market on this. Let's face it, most consumers are acting on whatever is convenient or a good price. A choice of outfit for going out on Saturday night is not because they're trying to save the planet, it's because they want to look nice and wear something new. For that reason, change has to come *from* the industry and *to* the consumer, so no matter what they buy it's a given that it has been made responsibly. Unfortunately, there is a very profitable business model in overproducing, in overconsumption, and then marking things down. I wish we could regulate markdowns in terms of the lowest price that would be acceptable relative to how much land, natural resources and human labor were exploited in the process of making it. Maybe then we would appreciate its actual worth. Again, it comes back to a choice from the leadership of the businesses how far they are willing to go on this.

Are discount retailers to blame?

EK: I'm not against producing clothes at a cheaper price point because not everybody can afford expensive brands and there need to be opportunities for families with other wallets to access products. With fast fashion, for example, it's not so much the price point that's the issue, it's the disposable part.

CB: Fast fashion has become synonymous with "affordable and disposable," but those two things need to be separated, because I believe there *is* space for *affordable* fashion, just not *disposable* fashion made to be worn once and thrown away. As a society, we have to completely remove the idea that disposable fashion is acceptable. Yet there has to be a place for responsibly made *affordable* fashion. However, producers must ask: Is this product going to be used for a long while or a short time? Durability should be their highest

Andrea Baldo
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calling, but if they're making basics, like undergarments, then they need to ask: What's going to happen to that afterwards? There should be a business model for products with continued and repeated use, and another one for those that aren't going to last more than a couple of years or have multiple owners. It's about producers extending their responsibilities and having a plan for each.

AB: This will put constraints on the materials you use, the way you design, the engineering of the products, so they can be dismantled easily, and that the sizing will be extendable to other people. And you will have to account for all that in your strategy. But the more you can extend the life of a product, the more value or equity you can extract from it.

Sounds like a tall order...

CB: To really see change in the marketplace, it takes time and long-term investment. You're talking about a two-year project minimum, because you may have to create the supply yourself. It takes three years for a farmer to transition from conventional to organic, and they have to be supported in that transition.

AB: Doing all this is going to take some profit out of the system. There will be price increases, not just owing to inflation because of the war and the higher prices of oil, gas and petrol, but if you want to make products more transparent, you need to pay fair wages, track exactly where things are coming from, and this needs to be built into your business model. The future model will be about producing just the right amount instead of overproducing and generating a lot of waste; the future model will be around scarcity. We created this problem – selling products for €1 and letting consumers think that was the right price, without any thought to the negative externalities – and now we have to try to solve it.

But it is solvable. Twenty years ago, nobody thought you could buy a product without trying it on first, and we all know how e-commerce has upended that. Now if people are prepared to buy a garment without actually trying it on, why not a product that is used but in good condition? Reselling is going to be part of the business model in the future. In so many aspects, we need to radically rethink the retail model and extend the value that we can extract from the customer relationship in ways we never thought possible before. ■

José Luis Nueno
IESE Professor of Marketing and holder of the Intent HQ Chair on Changing Consumer Behavior. Author of *Never Normal* (2022) and *Direct to Consumer* (2020).

Adapt or perish

If the No. 1 priority for retailers during the height of the pandemic in 2020 was to stay open, since 2021 it has been *how many* shops to keep open and *where*.

"The pandemic's most enduring feature will be as an accelerant of existing trends," writes NYU Stern professor Scott Galloway. And one of those trends is what Galloway terms "the Great Dispersion." Remember the way we used to work 9 to 5, Monday to Friday, and save up shopping for the weekend? We'd make a big trip to a suburban mall or superstore – places referred to as shopping "destinations." Now, work, shopping and entertainment have been *dispersed*, unbundled from the constraints of time and place. Faced with this post-pandemic reality, I concur with Galloway that "all brands need to establish a direct relationship with the consumer." What does that mean?

Innovation. In inflationary times, retailers want to keep their costs under control, so they may prefer not to launch their own brands or experiment with new products. But the crisis has shown that cash-strapped customers who switched to private labels will stay loyal if there is quality. Retailers must balance being conservative in the short term with attracting customers with innovative offers that generate loyalty over the long term.

Inflation. As 2020 supply-chain disruptions led to higher costs in 2021, retailers initially took the hit, especially those who had spare stocks, and consumers didn't perceive those inflationary rises right away. Not anymore. In 2022 retailers are passing those costs on and prices are going up across categories. This is leading to a decline in spending, and recession. By now, retailers should have made their cost-price adjustments, but how long will consumers put up with paying more? Sales volumes are falling. Again, brands that are able to innovate and differentiate themselves – at affordable prices – will be better positioned to ride this cycle out. And eventually, when the Ukrainian crisis gets resolved, the effect on the global economy may be similar to the rebound after vaccines were introduced.

Localization. Over the past two years, retailers that were able to shift their sourcing locally did so to avoid global supply-chain disruptions. This trend of deglobalization is ongoing, reinforced by geopolitical tensions and resurgent nationalism, as well as the drive to reduce carbon footprints. Localization, however, also has to do with the convenience of shopping locally – the dispersion or unbundling of demand mentioned earlier. People want things nearby. They may buy things online, but they want to see, touch and pick them up locally. Recognizing the desirability of local spaces, the suburban superstores are moving back into the neighborhood. And the larger chains need to decide if it's really necessary to maintain two or three stores on the same shopping street: what might those become instead?

Omnichannel. The answer is to turn surplus stores into redesigned retail spaces. Whereas people used to discover brands online and then go to the store to buy them, now they tend to buy online and use the store to discover and try out new brands. The rise of e-commerce doesn't eradicate the need for physical stores but rather reinvents them: they are the best way to create brand awareness and shift logistics costs over to the customer. So, these stores become warehouses, showrooms, experience centers, local collection points for online operations, or even dark kitchens. The latter is a trend that has taken off in the realm of food delivery, where food is prepared to order exclusively for delivery via third-party apps to customers living in close radius.

Direct-to-consumer (DTC). Selling via Amazon may expand your reach, but you don't reap the rich customer data or control the sales process. To be profitable, at least half of your e-commerce should be direct-to-consumer, meaning selling directly to consumers via your own platform. Granted, you may still need to use local stores for delivery/pickup, so some of the gains of cutting out the middlemen are lost by doing your own logistics. But, on balance, DTC gives you better control over your margins *and* your customer relationships.

In this "never normal" world, retailers must get to grips with this permanent state of disruption. Some of the actions taken to cope with the pandemic – more open-air spaces, pickup zones, spaces redesigned for less crowding and better flows – demonstrate retailers' quick thinking and are worth keeping. Retailers should build on this spirit of flexibility and resilience. Because there's only one normal in business: Adapt or perish. ■

A new perspective

THE BIG PICTURE

Telling your story

“What do you do?” Whether in a formal job interview or a casual encounter, we’re all asked this question. Do you have a good answer? Here we present two metaphors to help you articulate your own professional journey.

The river

Your career journey evolves almost on its own

1 **Starting point**
You enter the river – like getting an internship or a first job after college – and see where it will take you.

2 **Direction**
You follow the current, changing jobs or even companies as opportunities arise. You never really think about the direction the river is taking you.

3 **Too slow or too fast**
The river sets the pace. Too slow and you feel frustrated. Maybe you quit and go back to school. In the rapids, you may become so focused that you neglect your most important relationships or even your health.

4 **Capsizing and crises**
Losing a job is like flipping over. Should you take the first boat that comes along or ask yourself if this river is the right one for you? A crisis might make the entire river run dry. Is this the time to change or do you wait for the rains to come again?

5 **Looking ahead**
Have you talked with people who can tell you what lies further downriver?

Which metaphor resonates with you?

Try telling your own life story using one of these metaphors, making sure you hit the same five beats:

1 Why did you make your initial choices?

2 How did you change and adapt along the way?

3 How did you react to negative experiences and overcome obstacles?

The race

You see your career as a race against others

The field
At the start, the ground is flat. The faster you run, the farther you get, although some people seem to have a head start.

The rough
Running as fast as you can on uneven terrain may cause you to trip and fall. You will want to move quickly but watching where you step and avoiding political pitfalls. Do you have a mentor who can help or even pick you up if you do fall?

The forest
Don't just watch the ground or you may run into a tree – i.e., letting your ego get in the way or failing to nurture important relationships. Do you blame the tree for obstructing your path, or do you navigate around the trees and get through the forest in one piece?

The swamp
Visibility is poor and you might lose your way. You may, in fact, have to take a few steps back if you want to take a different path or make a significant career change.

The beach
Where do you want to end up: overlooking the sea – sailing, surfing, fishing or watching the boats go by? Where will you ultimately feel settled and content?

SOURCE: *Learning to fly: How to manage your career in a turbulent and changing world* by Mike Rosenberg (2022).

4 **Did you take responsibility for your actions and try to learn from your mistakes? Learning and growth should be central themes.**

5 **Finally, spend some time thinking about the future, and show you're preparing yourself for probable scenarios and logical next steps.**

Crafting an honest story – a brief yet captivating elevator pitch – will resonate with recruiters, who can smell artifice a mile away, so make sure everything you say is true. Also, as the coronavirus pandemic has upended all our lives, make sure you make that part of your story, too. **Now is the time to process the past and craft the future you want!**

HACK

The dark side of empowerment

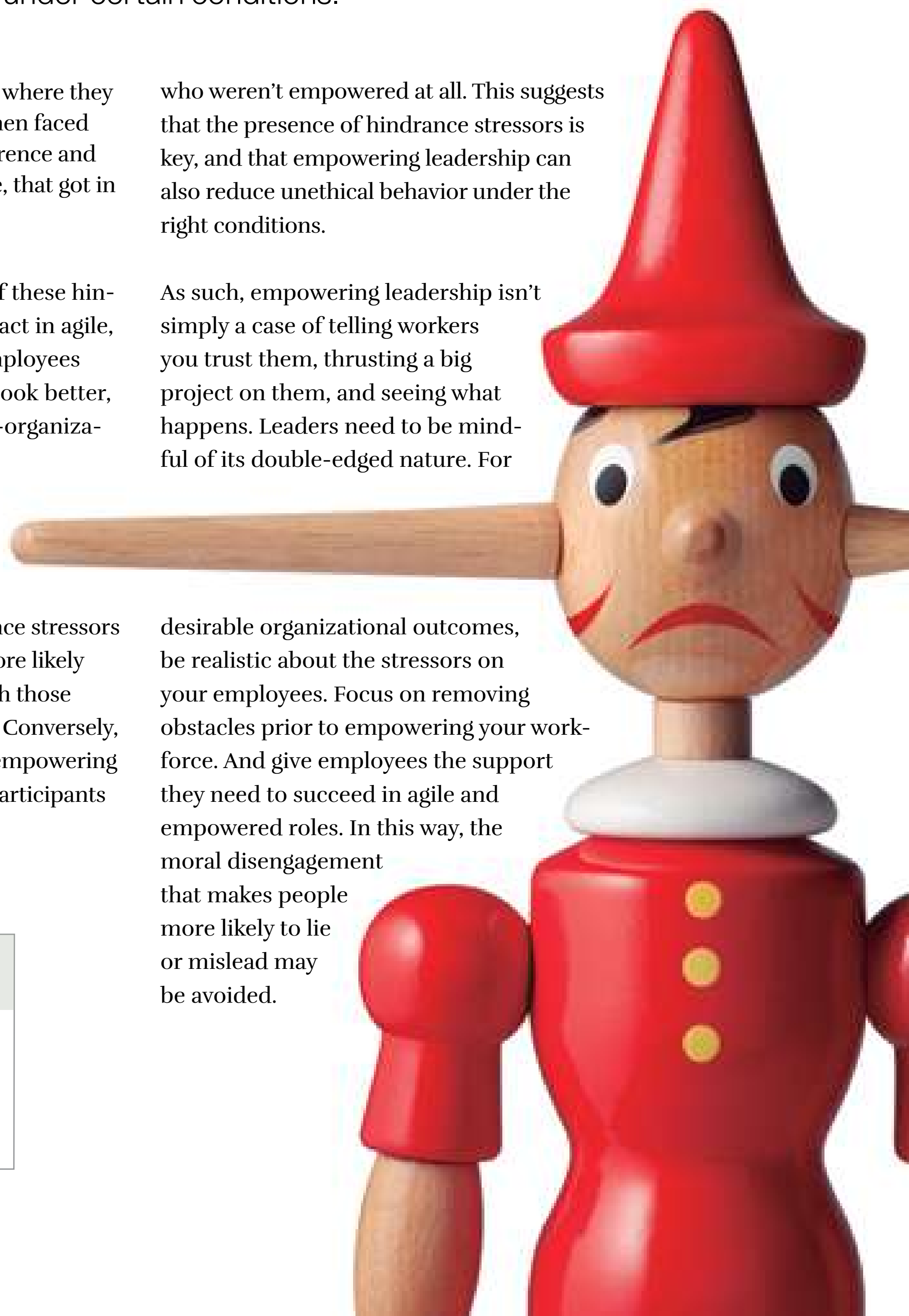
When employees are granted autonomy, past research shows they tend to be more committed, creative and satisfied at work. But new research indicates they may also be more empowered to lie, under certain conditions.

Hundreds of employees were tested in situations where they were empowered (or not) by their leaders. They then faced high (or low) hindrance stressors – that is, interference and obstacles, such as conflicting requests or red tape, that got in the way of their work.

So, what happens when employees have many of these hindrances present while also being encouraged to act in agile, self-directed ways? Stressed-yet-empowered employees may go so far as to lie to make the organization look better, engaging in what the authors call "unethical pro-organizational behavior."

In one experiment, participants were exposed to one of four scenarios and asked to work on anagram challenges that, unbeknownst to them, were unsolvable. Those who faced higher hindrance stressors together with an empowering leader were 75% more likely to lie about "solving" their puzzles, compared with those exposed to a leader who was not so empowering. Conversely, participants with no hindrance stressors and an empowering leader were almost 30% less likely to cheat than participants who weren't empowered at all. This suggests that the presence of hindrance stressors is key, and that empowering leadership can also reduce unethical behavior under the right conditions.

As such, empowering leadership isn't simply a case of telling workers you trust them, thrusting a big project on them, and seeing what happens. Leaders need to be mindful of its double-edged nature. For desirable organizational outcomes, be realistic about the stressors on your employees. Focus on removing obstacles prior to empowering your workforce. And give employees the support they need to succeed in agile and empowered roles. In this way, the moral disengagement that makes people more likely to lie or mislead may be avoided.



Tobias Dennerlein et al.

"The hidden dark side of empowering leadership"
Journal of Applied Psychology
https://doi.org/10.1037/apl0001013

A board to-do list

Board directors recognize the importance of a meaningful corporate purpose in engaging customers and employees, but for many, their purpose is not connected with their strategy and ESG dimensions to be fully effective. That's according to a survey of board directors representing 158 companies, both public and private, from 18 countries (12 in Europe). This lack of connection impacts companies' ability to make substantial progress on their environmental and social goals while creating value sustainably through competitive business models. Respondents also underscored the importance of debating the firm's strategy and paying close attention to geopolitical risks – both crucial given today's wartime disruptions. A strong corporate culture can support the strategy; unfortunately, most say their culture is not well articulated at the board level. Moreover, while many do take ESG seriously, particularly in reducing emissions and moving to net zero, they admit such factors are not yet fully embedded in the corporate strategy, consistent with the firm's purpose. Such findings are a stark reminder for boards to focus on these key areas that determine long-term value creation, beyond compliance. Might it be time to rethink your board's future agenda, giving these issues the attention they deserve?

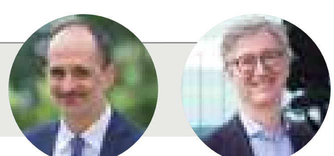
Yuki Sakasai **Gaizka Ormazabal** **Jordi Canals**

2022 IESE Survey on Boards of Directors: Corporate Purpose, Culture and Strategy
IESE Center for Corporate Governance (CCG)
https://media.iese.edu/research/pdfs/ST-0628-E

How you invest matters, too

Our planet needs saving. Can green investing (with an explicit environmental mission), and more broadly ESG investing, help? Although some dismiss such investing as a placebo, an analysis of 3,706 firms from 20 countries finds a positive relationship between the relative size of green investment in an economy and firms' environmental performance, albeit with state policies playing a role. In countries with strong shareholder rights protections, like the U.S., environmental performance overall was weaker, but there the effect of green investing then became stronger. In countries with stronger environmental protections, like Denmark, the impact of green investing on firm performance was less, but that's because the environmental performance of firms in these countries was already better, thanks to state intervention. But it can't all be left to the state: Short of changing national environmental laws, ordinary citizens can, as investors, still invest in green, giving a collective push where and when it's needed most.

John Almandoz,
Fabrizio Ferraro et al.



"The impact of logic (in)compatibility: green investing, state policy and corporate environmental performance"
Administrative Science Quarterly
https://doi.org/10.1177/00018392211005756

"DOING GOOD WHILE GENERATING RETURNS"

Marta Hervás
Director
Impact Private Equity
Arcano Asset Management
www.arcanopartners.com

There is growing consensus that corporations must play a role in tackling the major challenges that society faces today. This requires changing the way we think about corporate strategic leadership. To this end, IESE professor Fabrizio Ferraro ran a weeklong course on Sustainable Leadership as part of the Executive MBA. It featured case studies and guest speakers from various sectors and industries sharing their experiences of how they are integrating sustainability and Environmental, Social and Governance (ESG) criteria into their strategies and business practices. One such guest, Marta Hervás, addressed "Scaling Impact Investing."

Hervás is a Director at Arcano, a leading alternative asset manager headquartered in Madrid, Spain, with around 8 billion euros of assets under management and advisory. She leads Arcano's private equity (PE) impact investments globally and is also involved in defining ESG processes for PE and making sure these are implemented across investments. Here she explains more about impact investing, a field which she says is growing like crazy.

Tell us a bit about Arcano...

Arcano was set up as a boutique investment bank catering to the mid-market, which Arcano felt was being overlooked by the broader industry. In 2009, a few years after launching its first PE "fund of funds" also targeting mid-market investments, the team began incorporating ESG into its investment process. Arcano was advocating ESG investing for well over a decade before interest took off among the Spanish investor community more widely. We were also the first independent Spanish alternative asset manager to join the U.N. Principles for Responsible Investment (PRI). After launching several successful ESG-committed funds, in 2018 we began considering launching an *impact* PE fund of funds when the concept of "impact investing" was still quite new.

Fund of funds, impact investing: please explain...

A fund of funds allows investors to build a portfolio of funds rather than a portfolio of stocks, bonds or other securities. Instead of an investor holding an individual security, he or she buys into a bundle of different funds that hold stocks or bonds, thus diversifying and spreading risks. These funds are managed by professional institutions and can be used to invest across asset classes. With impact PE, these funds tend to be thematic – only investing in specific sectors that support certain Sustainable Development Goals (SDGs) – or impact branded.

To understand the spectrum of investment, it helps to see the diagram on the next page, with traditional investing at one end and philanthropy at the other. The broad "impact economy" lands between these two poles. It ranges from not wanting to do harm with your investments (so, using ESG criteria to screen out the negative companies) to wanting to do good by ensuring that the companies you invest in are making a real positive impact on underserved people and the planet, while generating financial returns. That would be "impact investing" more explicitly.

What was the initial response to your impact fund of funds?

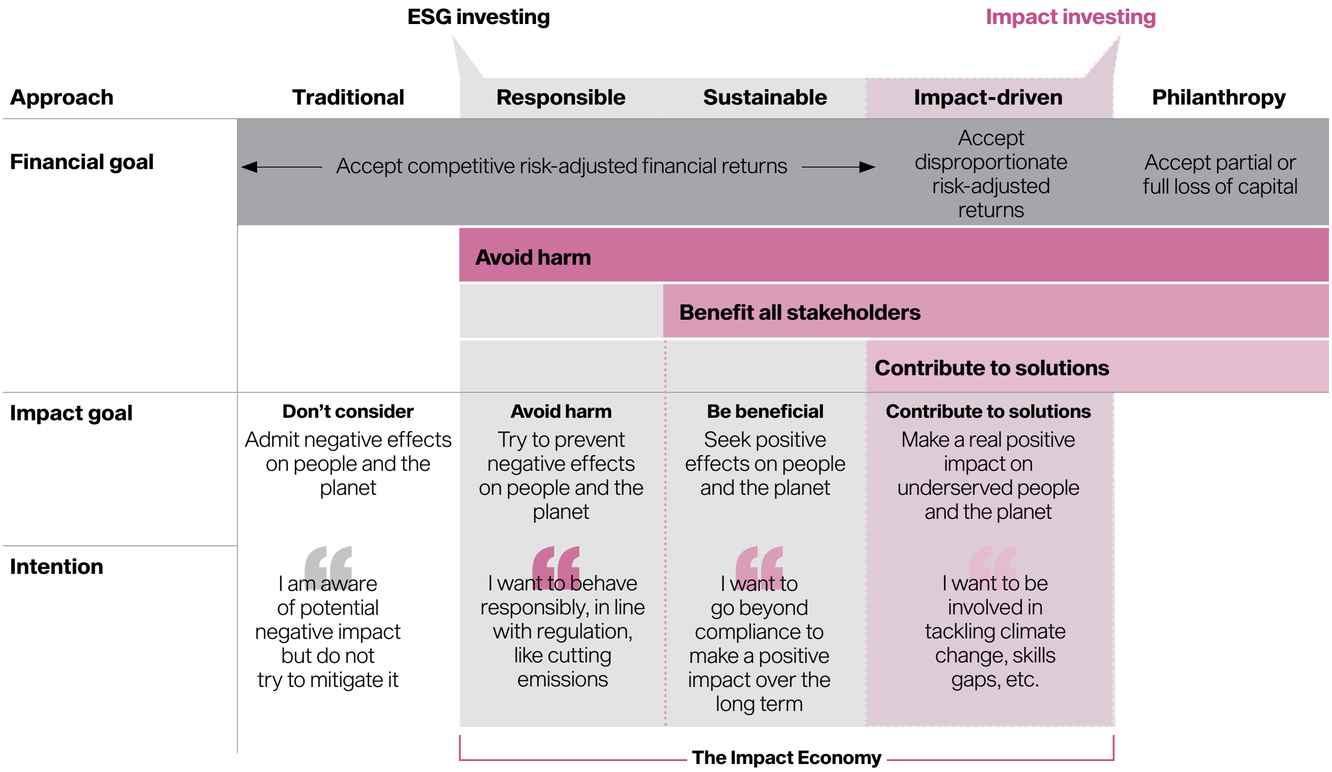
There's a persistent belief that the only way to do impact investing is to sacrifice returns, but that's not the case, as we have proven. It really comes down to the individual investor. Different investors have different needs and priorities. Ultimately, if you don't see the value-add of limiting your investment scope to be able to generate some social advantage or solve some challenges in the social space, then impact investing may not be the right option for you.

We also find different reactions between the U.S. and Europe – the two main markets where we operate. In Europe, either because of investor interests or the regulatory environment here, there was generally a lot more knowledge about impact or ESG. Whereas when we started talking about this in the U.S., generally speaking asset managers were like, "Impact? What are you talking about?" Although that is now changing.

How do you make sure these funds stay committed to generating impact?

There are lots of ways to make sure that the funds and the underlying companies' management teams are aligned. For example, teams can have incentive structures where some fund managers link part of their carried interest to the achievement of the impact goals defined at the portfolio company level. And then, at the portfolio company, the management teams' incentive packages are also linked to the same impact KPIs. These are straightforward factors that can be analyzed and help investors understand the funds' level of commitment.

CREDIT: Samuel de Román



SOURCE Adapted from Bridges Insights/Impact Management Project (IMP)

Having said that, you still need to probe deeper to understand if the intentionality for impact is there – if it's really embedded or intrinsically linked to the strategy. Let me give an example.

We identified a fund in the U.S. called Achieve Partners. They were launching a workforce education fund. Basically, they were investing in tech-driven companies and implementing "last-mile training models." One of the portfolio companies they had invested in was a healthcare IT company, helping healthcare organizations in the U.S. with their electronic health record (EHR) systems, including applying an EHR software in a more efficient way. It's a market where staffing is complex, as there is high demand for the service but not enough people trained to operate such software. By implementing the "last-mile training model" at the company, Achieve was able to offer the company's clients the trained professionals, who were capable of operating the software, in addition to their IT services. The cohort of professionals being trained traditionally had low levels of education. Through the intensive training process, sometimes reskilling or upskilling them, they were able to be placed within these healthcare organizations.

This is the full scope, from selling the product/service to investing in people, who can earn demonstrably more than they did before, and the healthcare providers become demonstrably more efficient than before. When we talked to Achieve, the term "impact investing" never came up in our initial conversations. Although they weren't marketing it as such, they were effectively doing what it takes to be considered impact investors. They saw a gap in the market, which represented a social challenge to be addressed, they solved it, and it was clearly having positive social outcomes. For us, this qualified as an impact fund. They had a defined strategy, they were able to measure their impact by the number of people trained and placed, they had diversity within those candidates and people coming from disadvantaged communities, they knew the increase in salary, and they could quantify the improvement and real outcomes.

A lot of our work starts by having conversations like these, spending time going through portfolios and figuring out what the underlying portfolio companies do, why it is impactful, what metrics can be reported, what management

team incentives are in place, etc. All these analyses are time-consuming, complex and, as such, require a big effort. Our fund was created for investors who don't have the time, resources or know-how, and who are looking to access the profit-for-purpose impact space.

How do you prove that your investment is the one that is driving the change?

It's hard, but the way we handle it is to make sure there's a link between strategy and impact, like in the Achieve workforce fund case. We try to make sure that the decisions that we make are closely aligned with the managers and that the intention is there. We do our due diligence super thoroughly. After that, we need to monitor. If we feel that some managers are deviating from the path or strategy that they mentioned they were going to follow, we will try to provide feedback and guidance in order to redirect their focus. However, if the deviation continues, then we could potentially go to the secondary market and try to sell a position because it's not aligned with the original investment thesis.

Where do you see the most promising activity?

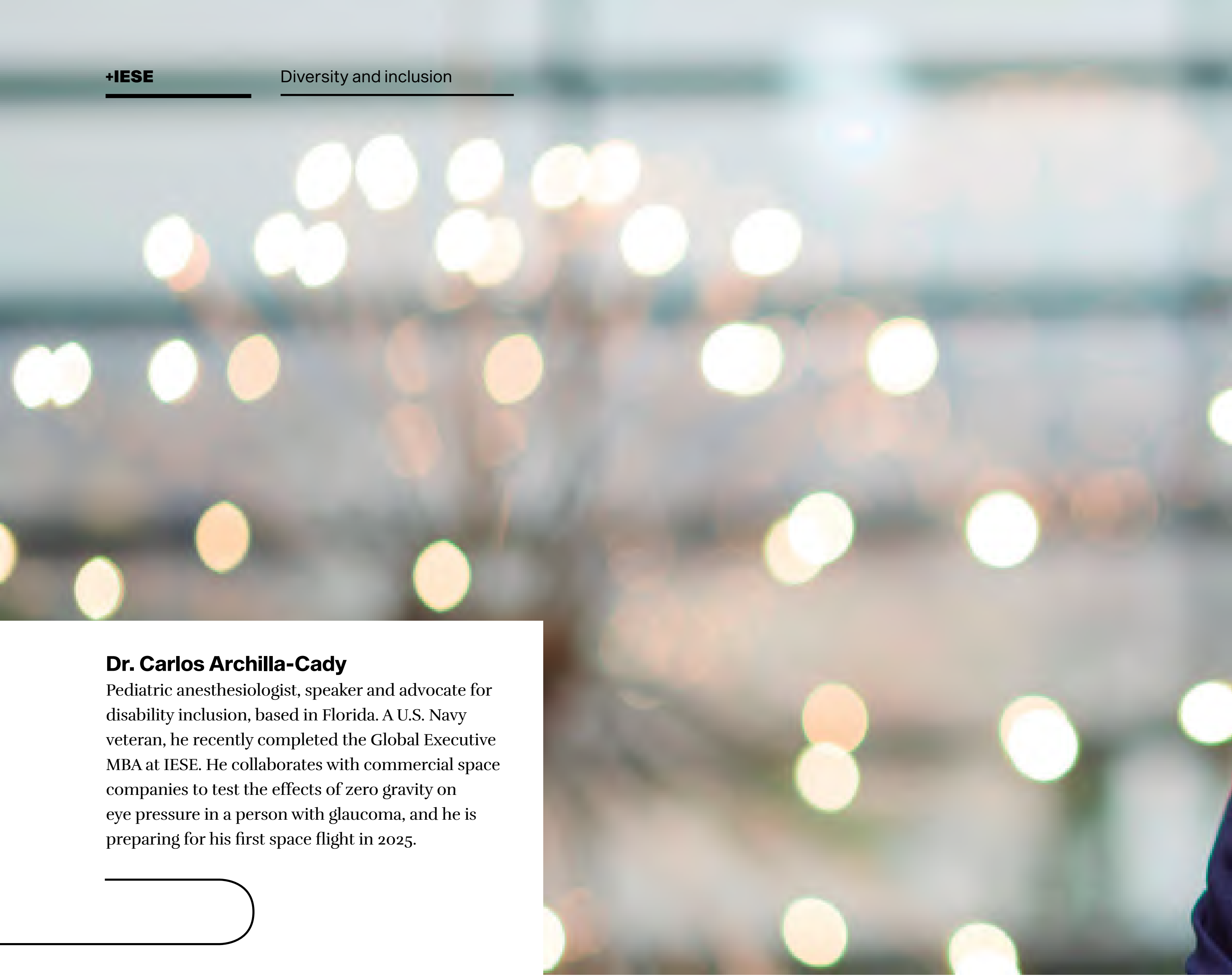
In general, we see four main impact investment themes covering most of the activity in our core focus markets of the U.S. and Europe: healthcare and wellbeing; the energy transition; quality education; and food and agriculture. Also, there is a lot of opportunity in emerging markets. However, for the time being, we are sticking to the U.S. and Europe, because that's where we feel comfortable that we can achieve impact returns with mitigated risks, although there are other funds of funds dedicated to emerging markets.

Given what's happening with inflation and the markets in general, how do you see the future?

To be honest, there are probably going to be even more retail investors interested in PE, many with an impact focus. The space has grown like crazy. When we started, we took a risk based on a strong conviction that you could generate positive social impact alongside attractive financial returns, and now we have proof. Everybody from general investors to pension funds seems to be moving in this direction, which means more awareness and more people willing to take the risk and launch more funds to do some good while generating returns.

Capital used to be on one side, and social and environmental were on the other, like two diametrically opposed concerns. But ESG and impact investing have bridged that divide. And just as it is getting increasingly difficult to find a corporate leader today saying, "I'm just the CEO, I only take care of business," likewise fund managers are expected to have some basic understanding of social and environmental issues, and make decisions based not only on metrics like potential return on investment but also on *return on impact*. Which isn't to say that risk-return won't ever be justified, just that more and more people are landing somewhere in between. ■

MORE INFO: The case study "Arcano Partners: scaling impact with a fund of funds" Parts A (SM-1713-E) and B (SM-1714-E), by Nicolas Mo Umpierre (MBA 2022) and Fabrizio Ferraro, is available from IESE Publishing at www.iesepublishing.com.



Dr. Carlos Archilla-Cady
Pediatric anesthesiologist, speaker and advocate for disability inclusion, based in Florida. A U.S. Navy veteran, he recently completed the Global Executive MBA at IESE. He collaborates with commercial space companies to test the effects of zero gravity on eye pressure in a person with glaucoma, and he is preparing for his first space flight in 2025.

Reaching for the stars


CREDIT: Paul Mac Manus

In 2000, Dr. Carlos Archilla-Cady was driving home from work when he lost all vision – the world suddenly became a dense white fog before him. He managed to pull over, and in half an hour, his sight had cleared enough to continue home. Badly shaken, he went to an ophthalmologist. His eye pressures were found to be highly elevated, characteristic of glaucoma.

It was the beginning of many years of challenges, operations and even corneal transplants – but also the beginning of new adventures and (literally) new horizons that would soon be sending him into space.

A career backup plan

As a pediatric anesthesiologist at Nemours Children's Health in Orlando, Florida, Archilla-Cady knew that any permanent vision impairment would have left him unable to work as a clinician. When glaucoma was formally diagnosed, "I realized how much I had to lose," he recalls.

For the next 19 years, he was subject to a range of steadily more invasive procedures, from eyedrops several times a day, to operations to insert fluid-draining valves behind his eyelids, to eventually corneal transplants. These transplants were rejected by his body twice, but the third one, in 2019, has been successful so far.

Being a transplant recipient has made him a passionate advocate of organ, tissue and eye donation. "I am eternally grateful to the donors and their families," he says, explaining that not only did they restore his sight, they gave him a new lease on life.

Throughout these ups and downs, Archilla-Cady realized he would need a career backup plan if he never fully recovered. As a healthcare leader, he believed in lifelong learning and had taken various courses at prestigious business schools. But now he felt he needed a formal degree, which led him to the Global Executive MBA at IESE, which he began in 2020.

"IESE was very accommodating of my disability the whole time, something that I needed most at the beginning of the program," he says. "While I was applying, I mentioned that I would need certain accommodations, which they were happy to provide. By the time I actually started, I was on the road to recovery following my latest transplant."

This episode of disability has sensitized him to the need for inclusion in all aspects of life and in the business world, and for Archilla-Cady, that mission has taken on epic proportions.

Redefining "the right stuff"

Usually, children dream of becoming astronauts. The reality is that professional astronauts are an elite club – part scientist, part Olympic athlete. The term "the right stuff" – referring to the mental and physical traits needed to succeed – was popularized by the book and movie of the same name, about the first human spaceflight program of the United States at the height of the Space Race. But what if what was considered "the right stuff" in the '50s and '60s was wrong today? Archilla-Cady reflected on this when thinking about the 1997 fire aboard the Mir space station. In that fire, the crew were slow to respond due to a power cut that left them in the dark. Might someone with a visual impairment have been able to react more quickly?

The astronaut dream suddenly took on new meaning. When Archilla-Cady read about a group of people living with disabilities who were invited on a zero-gravity flight, he felt uniquely positioned to add value.

Astronauts who spend significant time on the International Space Station often experience swelling of the optic nerve and have reduced vision when they return to Earth. As someone living with a complex eye disease, Archilla-Cady was concerned about the effects of microgravity on visual acuity. Data have been gathered from healthy volunteers, but

CREDIT: Paul Mac Manus

Archilla-Cady felt data collected from people like him could provide richer insights into the effects of microgravity on the human eye, opening the potential for people like him to participate in space travel.

Dr. Carlos Archilla-Cady was thrilled to participate in a zero-gravity flight to test the effects on his eyes.

Archilla-Cady has already completed microgravity training with NASA and undergone a zero-gravity simulation flight, in which he made what are believed to be the first-in-history measurements of its effects on eye pressure in a person with active glaucoma.

"My pressures were normal before the flight," he says. "However, my intraocular pressures increased 31% in both eyes within seconds of entering zero gravity and returned to normal within minutes of leaving zero gravity."

Asked if subjecting his eyes to these extreme conditions worries him, Archilla-Cady responds that "there are always risks but my medical team believes these are minimal. After eight minutes in zero gravity, my pressures normalized, with no lasting effects."

With space travel getting to be less and less of a dream and more of a reality for non-career astronauts, Archilla-Cady plans to be blasting off in 2025, pleased to represent in space the kind of inclusion that he also works hard to achieve on Earth. Adamant that space exploration needs to democratize access, he is cheered that a community of businesses and individuals are working to make inclusion in space travel possible. He believes the experiences of people living with disabilities can help experts come up with innovative solutions to include them in future space exploration programs. Those who go into outer space frequently report how it gives them an entirely new perspective on Earth, leading them to appreciate the planet and value human connectedness even more – something that resonates with Archilla-Cady's own life-changing journey.

Disability as an asset

Ever since that fateful drive home, Archilla-Cady has had to work creatively to deal with his fluctuating vision and the various interventions to improve it. The experience underscored for him both the importance of disability inclusion and the special skill set that having a disability often fosters.

Specifically, living with a disability requires resilience, grit, determination, empathy and flexibility – all desirable traits in employees and leaders more generally. Archilla-Cady, for example, has pursued education, returned to work during the pandemic when his medical skills were in high demand, and begun his training for space. Thriving with a disability demands constant innovation to function in a world that isn't adapted to it.

"I think the skills that come from living with a disability can be helpful to business," he says. "We're used to having to navigate difficult terrain in one way or another. We can respond quickly and creatively if things go wrong."

"Disability doesn't mean inability; it means that capabilities are exercised differently. It's also worth considering that a billion people around the world live with some type of disability – which likely includes many of your customers who would like businesses to move from 'accessibility' to full access in the disability economy."

As with other forms of diversity, disability inclusion inside the company can foster greater connection with a diverse society on the outside. He insists that including people with disabilities in business adds value, and that people with disabilities and limitations should be redefined as assets for any organization. "They really do have 'the right stuff.' And their skill set, when applied to business, can be truly transformational." ■

Photo courtesy of OCBC Bank

Jason Ho
Executive Vice President and Head of Group Human Resources at OCBC Bank in Singapore.

"RESILIENCE IS KEY"

Singapore-based Jason Ho joined OCBC Bank as the Global Head of Asset & Liability Management following an illustrious 30-year career in sales and treasury services. Then, in 2015, the bank gave him the opportunity to head up human resources. "At OCBC, I had reached the stage in my career where I wanted to contribute in a way that makes a difference to lives and also add value to the bank beyond driving revenue. I wanted to invest in people to help them develop their full potential." Here he discusses more with IESE's Carlos Rodríguez-Lluesma during a Custom Program for OCBC Group.

Why did your company let you take on this new role?
I honestly didn't expect it. I asked, "Why me?" The bank wanted someone with strong business acumen to head up Group Human Resources. My experiences as a trader meant I had sound business knowledge and, therefore, an understanding of the kinds of people the bank required. I also clearly understood the bank's culture and where I could take it. My track record of mentoring industry professionals helped. They concluded that such qualities were assets for HR management and I was offered the job. The timing was perfect and I replied with a resounding "Yes!"

What were some of your early challenges?
How to make high-performing teams even better. Many were used to working in an old-style culture. I wanted to change mindsets. While our people were experts in their respective domains, I wanted them to learn to see different points of view and have the courage to experiment. I also desired to instill the importance of speed in decision-making, and if they made a wrong decision, to know why and learn not to do it again.

People must learn to think differently and bigger. If not, they will only focus on tasks and not build for the future. We observed from the pandemic that building resilience in people is key to surviving future crises. And there surely will be other crises. We learned to look at crises differently. A crisis is not necessarily a blip in time when we experience a sudden downturn and then quickly bounce back. Like COVID-19, a crisis may be slow-burning. However, we must continue to generate shareholder returns, look for opportunities and innovate. We've learned not only to live through a crisis but to be prepared and thrive through it.

How did you achieve your goals?
One thing we implemented was Strategic Workforce Planning. With the support of senior management, we approached the heads of every division and asked, "How can this job be transformed over the next three to five years?" We rolled out a learning roadmap based on the responses. For example, in the legal department we evaluated if they were hiring people who gave straightforward legal advice or if they were hiring versatile professionals who could consider compliance in terms of the real operating model. Likewise, in the treasury department. For jobs at risk, we asked, "Are we reskilling them?" It's about preparing each division for a new setup. It's about being one step ahead. This is good for the individual employee and it is good for the company.

How do you see HR changing over the next three to five years?
HR must be on a mission to create value in a way that promotes, drives and achieves business objectives, while providing a robust employee experience. We need data to do this, not only for data analysts but for the entire company. In the context of HR, this means using data to simplify and streamline internal processes and support decision-making. When we are able to map every moment of truth, of delight, of despair, we can see where higher levels of human interaction are required, and support those. Listening to internal data gives us instant feedback, which is as essential as financial data for efficiency, productivity and service.

Human interaction is paramount. The HR person should not only be the first and last person you meet when you join and when you leave. HR must function as a key business partner – the Chief Relationship Manager – for each division. That's how I present myself to the board, to my group CEO and to my peers.

How do you see HR supporting sustainability?
Sustainability has several pillars. The first, of course, is people. You must create an environment for people to be successful, not just in their jobs but also in their private lives. Behind our employees are networks of relationships with their partners, families, friends and communities. We provide a subsidized on-site child-care center in our building. How well we look after people in all aspects of their lives is our competitive advantage.

Second is about training people in new skills and creating new jobs within the organization. Our Future Smart Program offers new training modules across a wide variety of subjects. However, it is more than just attending conferences. We place our people in other divisions and countries within the banking group to learn different practices.

Third is aiming to be carbon neutral as an organization. How can we cut down on traveling? How can we contribute to society? The bank has various sustainability projects from recycling to planting trees.

The key is to allow people to go on their own personal learning journey. When someone wants to learn something beyond their core subject area, there is no question that we will help them access the materials, training or expertise that they need. In the past, a supervisor had to approve a course before the employee could attend a training. We flipped it around. Now, anyone can autonomously apply for any course. Their supervisor will be subsequently informed. The supervisor can query it, but the default is that any employee can pursue any learning without having to ask for permission.

HR and sustainability are about creating an environment where people feel vested in society and see it as part of their job to support Singapore meaningfully. ■

CREDIT: Quim Roser

Karim Adaimi
"I voted!" Adaimi, pictured on IESE's Barcelona campus, proudly shows off his inked thumb as proof that he voted from abroad in the Lebanese general election – one of two important events in his life in May 2022, the other being his MBA graduation from IESE.

Give back with generosity

Karim Adaimi admires the resilience of the Lebanese people. Here he explains how to face life's challenges with action and positivity.

On August 4, 2020, Karim Adaimi was excited to be embarking on a new adventure as he flew from his home in Lebanon to Barcelona to begin his MBA at IESE. He landed to dozens of messages waiting for him from concerned friends and family all over the world. While he had been airborne, ammonium nitrate stored in the Port of Beirut had detonated, causing one of the largest explosions in history, killing more than 200 people and leaving 300,000 homeless.

"Imagine your hometown, your special places, all gone," he says. "Whole neighborhoods, beautiful parts of the city, three hospitals, were lost."

He felt torn, having literally just arrived in Barcelona to commence a two-year program, yet immediately wanting to be home alongside his compatriots, helping to clean the streets and pick up the pieces after one of the most devastating days in his country's history.

Two years later, Adaimi is a proud advocate for "the beautiful country of Lebanon," so much so that in March 2022 he gave a TEDxIESEBarcelona talk titled "Beirut will rise again" on how "the strong and resilient people of Lebanon will work together to overcome the trauma of the port explosion." Throughout his time at IESE, he took positive steps both to provide practical help and to introduce his fellow students to the unique character of his homeland.

Rising from the ashes

Things were not easy for Lebanon even before the 2020 explosion. The Lebanese pound had lost 95% of its value since 2019, and inflation surpassed that of Venezuela at one point. People lacked access to basic resources like healthcare and electricity, with power cuts a frequent occurrence. There was little faith in the government; indeed, it was years of government mismanagement that was blamed for allowing such a dangerous quantity of explosive chemicals to be stored at the port in the first place. The arrival of COVID-19 only exacerbated these economic and political hardships.

While not downplaying the problems, Adaimi sees much to be hopeful about in how society tries to overcome them. A born optimist, he has participated in the Scouts for most of his life, which has affirmed his belief in the small community unit banding together to get things done.

"Take the explosion," he says. "The next day, there were 500,000 people out cleaning the streets. My mother, who works in a hospital, wasn't working that day but rushed straight to work anyway. She was in such a hurry to help that she forgot to contact me to say she was okay! Most of those helping went as part of small groups: neighborhood associations, my Scouts group, the Red Cross, Caritas. You can start small and still make an impact."

Regarding the power cuts, people are working on creative solutions. Typically, the government provides a certain number of hours of electricity a day and community generators make up the difference. However, as the number of government-provided hours has dwindled to fewer than six, the community generators can't keep up. Imagine, fridges and air conditioners no longer working in the stifling heat, as well as the things you least expect. The Lebanese writer Charif Majdalani described his distress at "the impossibility of raising the electric blinds on the windows ... like a symbol of the dark pit in which we are now all trapped."

But necessity is the mother of invention. So, people got hold of batteries to store electricity from what was provided daily for sharing later, while others installed solar panels. "To be clear," Adaimi says, "none of this is ideal, but it's a start."

Adaimi organized some community-level contributions of his own. Twice during the MBA, he spread the word among his classmates to donate their excess medicines, which were collected and sent to Lebanon in partnership with the charity Medonations. "I told everyone that even if they had just one tablet left in a box, it all helped." Their second medicine drive was not quite as big as their first – but that was because they had less time to prepare. "We were in a hurry because we were all going to Lebanon!"

No place like home

There was never any official IESE trip to Lebanon planned. Instead, Adaimi had been hoping to take a few friends to his country but kept putting it off. "It wasn't the right time," he recalls, "but then I figured it would *never* be the right time and we should just go."

“I asked other students if they wanted to come. The next thing I knew, there were 80 people signed up!”

Initially, seven people from his MBA team were interested. “I asked the other Lebanese students if they wanted to come and invite their friends, too. The next thing I knew, there were 80 people signed up!” Adaimi and four Lebanese classmates – Garine Arabian, Ali Moghnieh, Jessica Saade and Jennifer Zouein – got busy planning the trip.

Adaimi describes himself as someone who enjoys creating order out of chaos, but for this trip he had his work cut out for him. “Two days before we left, the government declared bankruptcy and said credit card payments would no longer be accepted. Cash only.”

Quickly, they organized cash and bank transfers for 80 people, as well as transportation and meals. “Obviously, just going to eat is logistics, not just because of the numbers but with the electricity cuts, you don’t want anyone getting food poisoning.”

But such travel adventures make the best stories, and the trip was a success. Adaimi was able to introduce his friends to the natural beauty and cultural heritage of the ancient Mediterranean land. He likes to think he was doing his bit for the economy as well. “Eighty people, from all over the world. We were even on the news.”

Making it, Beirut-style

In the face of all these challenges, what does Adaimi believe helps people stay resilient and strong? “Instead of dwelling in despair, you need to seek alternatives. Look for the quickest way to change things and find a way out of the immediate crisis.”

“Then, unite with others. Take charge of the changes you can manage. It might not transform the world, but it’s a start. Mobilize your circle and give back with generosity.”

“Finally, laughter is the best medicine. The Lebanese are known for their resilience, but I think it’s because we love to live. We never stop enjoying life. Even when your own life seems to be all deadlines and being busy, remember that working hard, though important, isn’t the whole answer. You also need to know how to enjoy the process.” ■

SMART PICKS

Food for thoughtvaluable

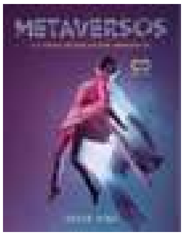
Dipping into the metaverse

Following a global energy crisis, people escape reality by donning VR headsets and entering the OASIS, an acronym for Ontologically Anthropocentric Sensory Immersive Simulation, where virtually anything is possible. That was the premise of the science fiction novel-turned-movie *Ready Player One*, set in 2045, yet it could almost be set today – and instead of OASIS we have Meta, the rebrand of Facebook. Ever since Mark Zuckerberg announced his ambition to move us all into the metaverse, everyone has been talking about what it is and what it means for how we will live, work, learn, interact and play in the future. Will it be the case that, except for eating, sleeping and bathroom breaks, whatever we want to do, we will do it in the metaverse, as *Ready Player One* asserts? To fire your imagination, dip into these resources. But to really grasp the metaverse, it's best to experience it for yourself, as we discovered at IESE.

Into the Metaverse

These intelligence reports from the agency Wunderman Thompson cover emerging consumer behaviors and trends, and their implications for brands and business models, as the metaverse takes shape. Based on case studies, original data and interviews with experts. Available for download from www.wundermanthompson.com/insight/

Metaversos. La gran revolución inmersiva



You're walking home and feel thirsty. You see an interactive billboard on the street displaying products and, using your smartphone, order a drink. By the time you get home, it's being delivered to your door. This is just one of many examples of how physical and digital realities are merging. Tech innovation expert Oscar Peña has written this book (in Spanish) on the currently available tools and solutions that companies are investing in, to help usher in the next stage of the internet.

Ready Player One

Both the 2011 book by Ernest Cline and the 2018 movie adaptation by Steven Spielberg offer a rollicking glimpse of a future where people prefer technicolor fantasy to ugly reality. The inventor of the OASIS virtual reality game offers to hand over ownership of the metaverse to whichever player can find the three keys that unlock the gates to his virtual kingdom. Teenage gamer Wade Watts takes up the challenge, but he's got competition, including corporate assassins. One critic described it as "sitting uneasily between purehearted and subversive" – much like the metaverse itself.

Black Mirror

For a darker glimpse of the future, this award-winning anthology, which was paused during the pandemic, is said to be coming back for a sixth season. Each episode poses what-if scenarios related to technology. The series title refers to the shiny screens that inhabit our daily lives, and the storylines are often unsettling precisely because their vision of the near future is so plausible. A standalone interactive movie, *Bandersnatch*, lets viewers use their consoles to choose the direction the story takes. Plenty of ethical dilemmas to chew on.

The Infinite

This artistic multisensory experience, inspired by NASA missions, isn't just VR but XR – Extended Reality – which takes the metaverse to a whole new level. Visitors walk through an installation on a virtual journey into outer space. You'll go through a wormhole before doing a Spacewalk and boarding the International Space Station. After opening in Montreal in 2021, it is now touring three cities a year until 2026. Go to www.theinfiniteexperience.world to see if you can catch it in a city near you.

FROM MY DESK

By Miguel Anton and Chabela Estalella

Our report from the metaverse

In June 2022, our Master in Management (MiM) students had an immersive experience in their advanced fintech workshop. What better way to discuss non-fungible tokens (NFTs), cryptocurrencies and the metaverse than in the metaverse itself, where participants appeared and interacted as avatars? For most, it was their first time inside an immersive, virtual world. We were all amazed by the experience of interacting in a 3D universe and exchanging high-fives with classmates whose avatars were self-designed yet still recognizable representations of themselves (two of ours are pictured above).

To do such a thing, you need VR headsets. Ours were Oculus ones by Meta, but PlayStation, Valve and others make them too, and they keep coming down in price. The current €350 is a third of what they cost five years ago, on a par with a smartphone. This is a key indicator for more mass market adoption. Then, you need to choose your platform. Again, there are multiple providers out there, offering 3D or 2D experiences, with 3D being more immersive, and some have limits to the number of users who can join at the same time.

At first, this might seem nothing more than entertainment. However, investment is ramping up. And it's not just social media companies like Meta that have spotted the opportunity; major banks and retailers are placing bets, seeing possibilities for novel customer interfaces and user experiences, like trying on clothes virtually. Inditex uses it to train employees on new store setups and for organizing warehouse processes.

In our classroom experience, VR controllers could be used to write in the air and the words appeared on the virtual blackboard. The metaverse almost had the touch and feel of an in-person meeting. Participants saw the potential for transforming team meetings when people are working remotely. Metaverse sessions could be useful for sharing program information with candidates, for welcoming incoming students, for interactive workshops or for business simulations, reaching people living in remote locations and bringing together those who are far away from each other.

This enlightening experiment helps us see the metaverse's pros and cons. The next day, some reported headaches after the hour-long experience, especially those wearing corrective lenses or glasses. Another student remarked that no VR can beat the real face-to-face experience of eating lunch together in the garden, networking or going out to a party. Certainly, it's worth experimenting with VR to understand its power and potential – to know where it adds value and when face-to-face teaching in a real classroom can't be replaced.

IESE finance professor Miguel Anton is academic director of the Master in Management (MiM) and Chabela Estalella is the MiM executive director.

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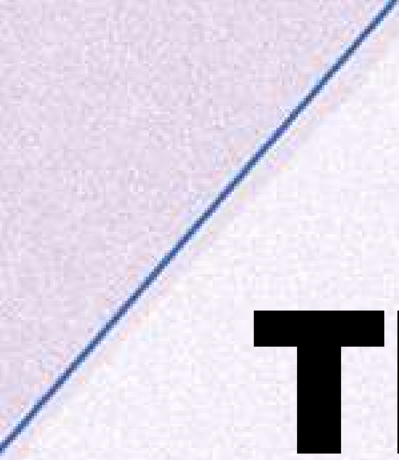


ILLUSTRATIONS: Redondo

THE ONE THAT GOT AWAY

By Johannes Müller-Trede

What feelings of regret tell us about decision-making in high-stakes situations, and why it is important that we keep learning as we move on.

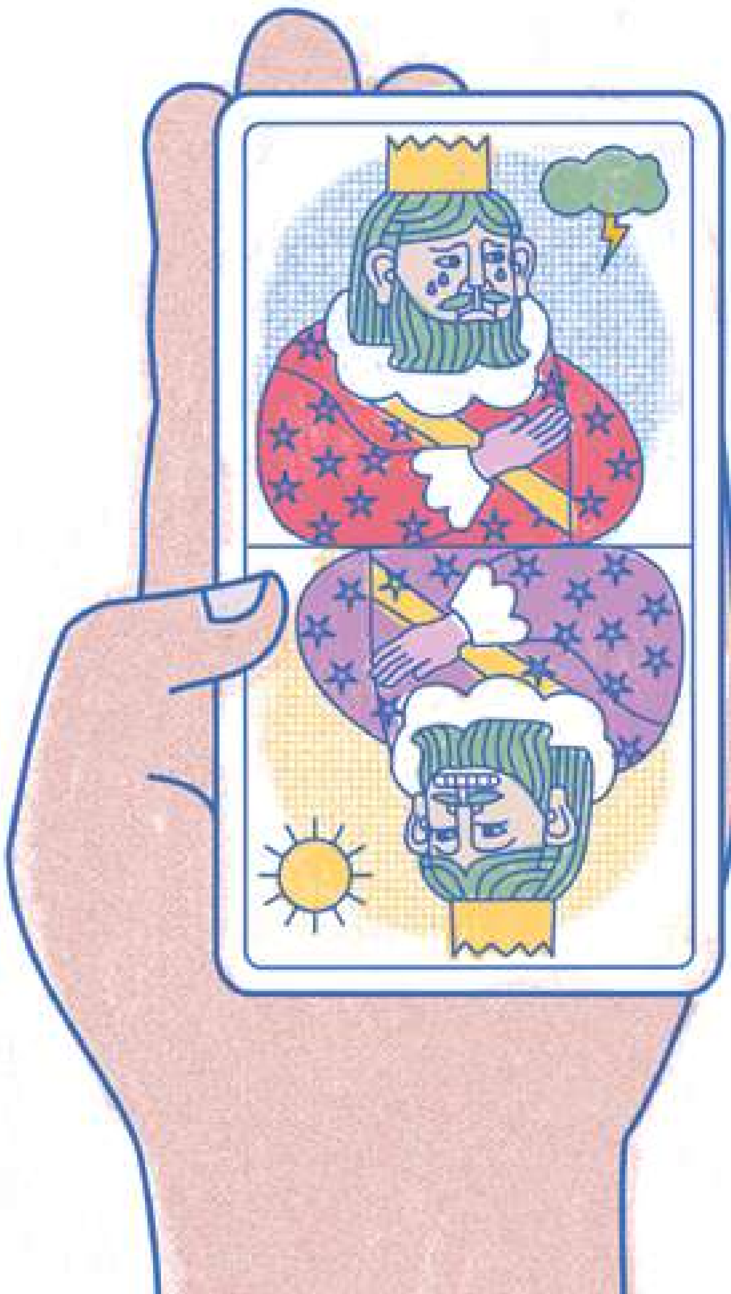
Ever wonder where you would be today if you had chosen the *other* path, the lyrical road not taken? What if you had studied at the *other* university, the one you had almost chosen? What if you had walked down the aisle with your very first love – or rather, what if you hadn't? At work, what if you had hired the *other* finalist who came a close second?

Reflecting on life's more momentous decisions is natural. And a tug of regret is what we feel when past choices seem like they might have been mistakes.

But my research reveals a surprising aspect of regret: choosing from many alternatives under uncertainty can lead to *undue* regret in high-stakes decisions; with more complete information, undue regret could be vanquished.

A key contribution of my research with coauthor Daniel Feiler is that we don't always have enough information to make a fair comparison between the option we choose and the proverbial "one that got away." Particularly when facing complex decisions (like many of those that really matter) we must often work with imperfect information.

We studied the effects of the imbalance between how we learn about the options we choose and how we learn about the options we didn't choose, which we generally know less about. And we find it is this *imbalance* that can lead to regret. As such, any regret we feel may have less to do with the allegedly superior qualities of "the one that got away" and more to do with our own overestimation of mythical qualities that remain unknown to us.



Big decisions

Let's break down the way we make important life decisions, like hiring talent or choosing a business school. First, we look at a pool of candidates. Then, with limited time and limited information, we do our best to narrow that pool down to our finalists. Finally, we make a choice, knowing that choice will have significant consequences going forward.

What's of interest here is that, early in this selection process, we may well *over*estimate the qualities of our frontrunners as we move toward making a final decision. It stands to reason that overestimating the qualities of certain candidates at the time of the decision makes us more likely to consider them among our finalists, whereas underestimating the qualities of others makes us less likely to consider them.

Not only are we more likely to choose an option that we overestimate, but we are also often unaware of how our own overestimation is setting us up for potential disappointment when the option's true value is later revealed.

In previous research by my coauthor, four studies showed that being overly optimistic about a choice was systematically exacerbated by three things:

- the presence of many alternatives;
- greater uncertainty about the alternatives' values;
- when the true values of the alternatives were close together.

Does this feeling of regret mean we chose incorrectly? No, not necessarily

For example, if an executive sees many promising job candidates, the person finally hired may have simply had the luck of being asked the questions that they were best prepared to answer in their final interview. Such incidental factors can lead to an exaggerated sense of the person's aptness for the job – and to subsequent disappointment with the hire, as real life catches up to expectations.

In the weeks and months after our decision is made, we learn more about the chosen candidate because we are able to observe them on the job. We start to see the whole picture, warts and all. But what we don't see is how our runner-up would have performed on the same job. So, whatever unrealistic expectations we had for the runner-up are never brought into line with reality.

Because we learn about the defects of our chosen candidate over time, we will often experience regret when we think of the runner-up. Does this feeling of regret mean we chose incorrectly? No, not necessarily, because if we reversed our decision, we would see the warts of the new selection but not those of the forgone alternative. It's a catch-22: if we overestimate the abilities of two finalists, whichever one we choose will be brought back down to earth while the other one will not. That is why the feeling tends to be *undue* regret.

Looking to social media to learn about "the one that got away" may actually heighten feelings of remorse, like trying to put out a grease fire with water

In the 21st century, awash in social media posts, you might wonder if following the alternative candidate's progress online could provide this leveling information. Keep in mind, though, that people's posts tend to cast them in the best possible light. Thanks to framing, filters and selective content, there is a systematic bias in this information. So, if we look to social media to learn about "the one that got away," we may actually heighten feelings of remorse. It's a bit like trying to put out a grease fire with water.

Studying regret in a lab

Going back to our research, we set out to prove that people were more likely to experience regret when they learned less about the almost-chosen alternative. We gathered evidence from four studies in which hundreds of participants answered questions in controlled environments.

Specifically, our participants were asked to take on the role of chief recruiter for a company. They were presented with 10 job candidates and tasked with hiring one for a job. To make this hiring choice, participants were presented with interview and test scores for all 10, as well as a warning that interview and tests scores were not perfect measures of a candidate's true ability to perform the job.

In our experiment, each participant selected two finalists and then made one hire. But here is where the setup differed markedly from real life: after the hiring decisions were made, some participants were given just as much information about the true abilities of their runner-up as they were about their chosen candidate. Effectively, we eliminated the information asymmetry that usually happens after deciding.

Careful questioning then revealed that, when we artificially removed the information asymmetry regarding candidates, participants said they experienced significantly less regret. In a total of four studies, we gathered enough evidence to conclude that knowing more about "the one that got away" actually helps reduce feelings of regret afterward.

Putting regret in perspective

Is reducing feelings of regret useful? Yes, because excessive regret has been found to be associated with depression and anxiety. Not fully understanding a source of regret can cause a needless psychological burden.

Also, when building teams at work, if managers labor under the impression that the runner-up might have been better than the person hired, that may serve as an inherently unfair comparison and negatively impact team dynamics. These downstream implications of undue regret would be interesting avenues for follow-up research.

But there is another, subtle-yet-powerful implication of our work. People have an astonishing ability to adapt to different contexts and take in new information. Keep in mind, however, that we must often work with perceptions and impressions that are fallible and imperfect. We simply do not have all the information much of the time. We do our best to learn, nonetheless, and push forward. That is part of the human spirit, and it is wonderful.

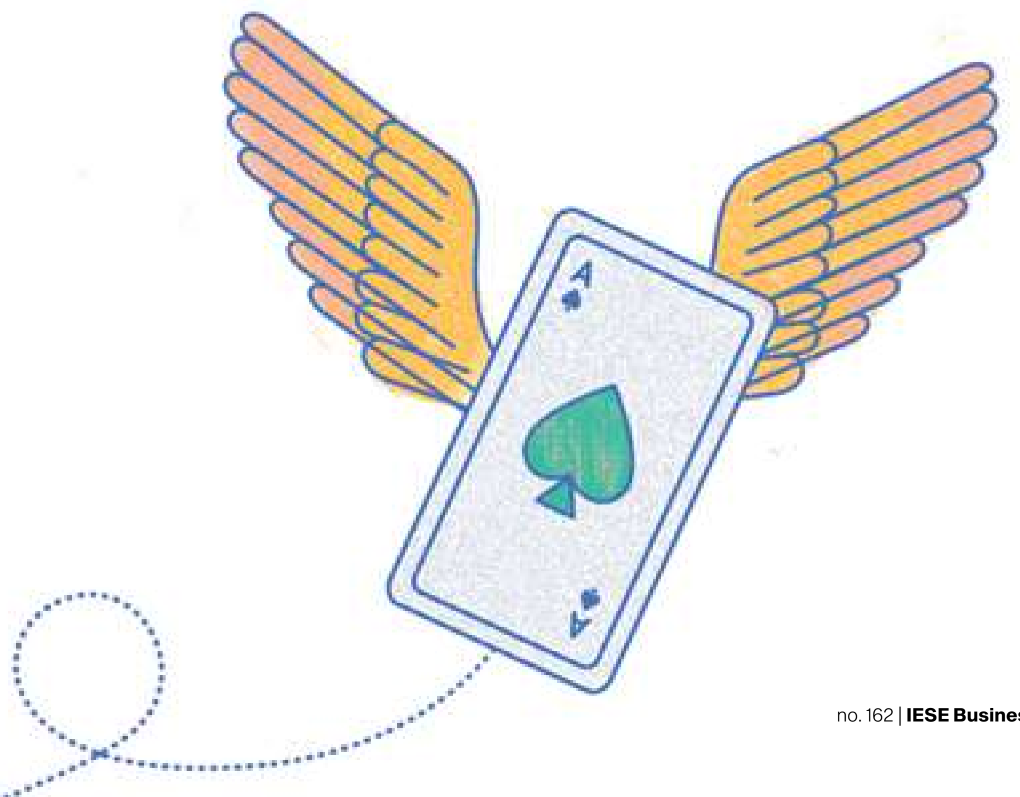
At the same time, we ought to remain aware of that possible fallibility of our own judgments. A critical awareness can help us realize that "the one that got away" probably had their own shortcomings and, to use another cliché, the grass is not always greener on the other side. These realizations may serve us well by saving us from misgivings and allowing us to work with what we have, and not a mythical might-have-been. ■

The author

Johannes Müller-Trede is an assistant professor of Managerial Decision Sciences at IESE. He holds a PhD in Economics from Pompeu Fabra University in Barcelona. After graduation, he worked as a postdoctoral researcher in the Rady School of Management at the University of California, San Diego. He is interested in all aspects of people's decision-making.

READ MORE: "The one that got away: overestimation of forgone alternatives as a hidden source of regret," by Daniel Feiler and Johannes Müller-Trede, is published in *Psychological Science*. https://doi.org/10.1177/09567976211032657

Also in *Psychological Science* by Daniel Feiler, with Jordan Tong and Anastasia Ivantsova, is "Good choice, bad judgment: how choice under uncertainty generates overoptimism." https://doi.org/10.1177/0956797617731637



Common ownership

Implications for competition and markets

In conversation with
José Azar

Assistant Professor at the University of Navarra and a Research Associate at IESE

ILLUSTRATIONS: Ester Centella

The rise of common ownership – where the same large asset managers are major shareholders in many overlapping companies – is clear to see, if you know where to look. It is especially visible in the growing power of the Big Three: BlackRock, Vanguard and State Street, which together control trillions of dollars in their funds. This matters because common ownership has real implications for competition and markets. José Azar draws from his award-winning research to help us understand some key forces in play.

If the merging companies' shareholders have, in their portfolios, other firms in the industry, then they could actually benefit from their rivals' gains

Tell us about the *beyond* in the title of your recent paper "Beyond the target: M&A decisions and rival ownership," published in the *Journal of Financial Economics*.

It looks at common ownership in merging companies and beyond. Here's how it started. About four years ago, Miguel Anton, Mireia Giné, Luca X. Lin (who was then getting his PhD at IESE and is now a professor at HEC Montreal) and I took a new look at a long-standing question: why do so many mergers seem to end up as bad deals for the acquirer?

The M&A literature offers possible explanations. Maybe the top managers are overconfident; or they are empire-building, essentially not acting in the interest of the shareholders, so that they can run bigger firms. And then there was an interesting 2008 paper by Gregor Matvos and Michael Ostrovsky ("Cross-ownership, returns and voting in mergers") that considered cross-ownership of both the acquirer and the target of the merger – acknowledging that shareholders in the acquirer may recoup at least part of what they are losing if they are also shareholders in the target. But soon after, another paper came out showing that cross-ownership in the acquirer and the target is simply not enough to explain what's happening.

My IESE colleagues and I decided to look *beyond* both the acquirer and the target, hence our paper's title. Consider: when two firms merge, a classic economic model has it that the merging firms lose value unless efficiencies are created. At the same time, the non-merging firms in the same industry can benefit. This is known as "Cournot's merger paradox." In simple terms, suppose you have five firms in an industry. If two of those five firms merge, you are left with just four. Those four can be more profitable, sharing the market four ways. But is the merger good for the two firms that merged? Before, they were two firms out of five, and now they are just one out of four, essentially shrinking in size.

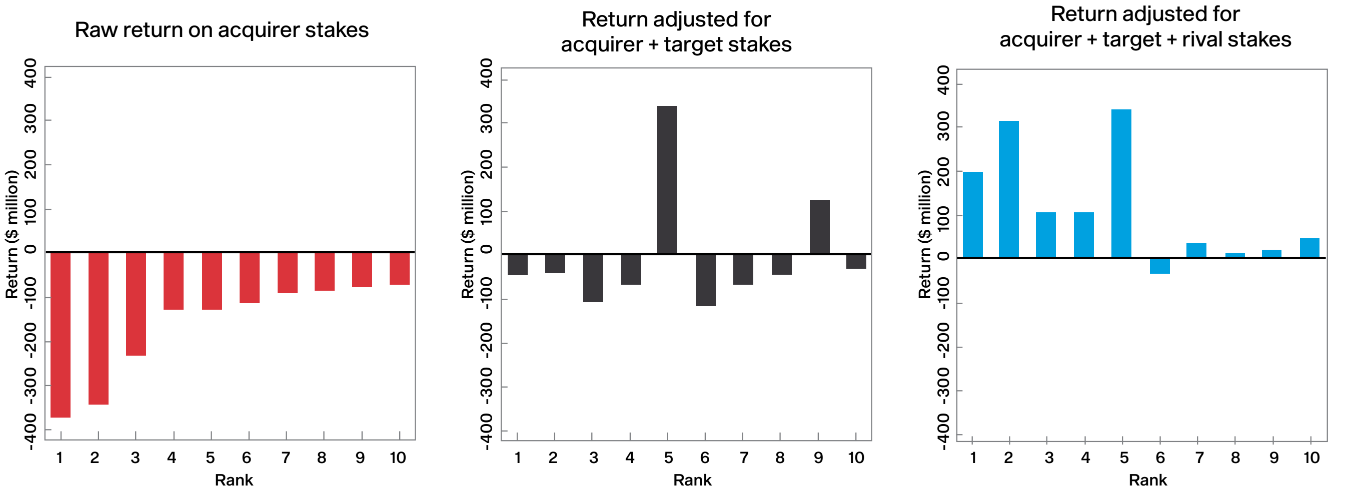
Here is where common ownership comes in. If the merging companies' shareholders have, in their portfolios, other firms in the industry, then they could actually benefit from their rivals' gains.

Could you give us an example?

Take Microsoft's acquisition of LinkedIn. Back in June 2016, the tech giant announced it would acquire LinkedIn for $26.2 billion. In a matter of just three days, right around the announcement, Microsoft lost 1.46% of its value. That 1.46% may not seem like a lot until you consider that Microsoft was worth over $400 billion at the time. So, losses for Microsoft's 10 largest shareholders were considerable, ranging from $72 million to $373 million in trading. In our paper, we show this in the figure, in red.

Returns in Microsoft's acquisition of LinkedIn

These three figures show the announcement return to Microsoft's top 10 largest shareholders (ranked by shares with voting power held) during the (-1,+1) window around the announcement of its acquisition of LinkedIn in 2016.



What about cross-ownership? It turned out that nine of these top 10 shareholders of Microsoft were also shareholders of LinkedIn, whose share value jumped a heady 45.97% on news of the deal. That said, for those top shareholders, only two were able to offset their Microsoft losses with the gains from LinkedIn. That's shown in the figure, in black.

And now we get to the main point of our paper. Nine of Microsoft's top 10 institutional shareholders enjoyed a portfolio boost, thanks to their ownership in rival firms within the same industry. If the industry benefits from a merger, those wealth effects matter. Consider this: among Microsoft's top 20 non-merging industry rivals (that is, the biggest firms within its industry, based on market capitalization), 15 of them gained in value during the same three-day window around the merger announcement, and these gains were more than enough to make up for losses in Microsoft's value. That's the final graph, in blue.

Zooming out from this single example, in our paper we analyze a sample of 1,800 horizontal mergers of public firms from 1988 to 2016 to understand how often shareholders benefit from M&As when ownership stakes in industry rivals are considered. In sum, we find that it is fairly common that ownership stakes in industry rivals compensate for losses in the acquiring firm. We find this for nearly a third of acquirer shareholders.

Rival ownership doesn't explain all bad deals, and CEO overconfidence may still be a factor, but it can help us understand why, in a significant number of cases, shareholders don't vote against deals that are likely to destroy value.

What else on common ownership is in your research pipeline?

I'm working on another paper with Xavier Vives on common ownership currently called "Revisiting the anticompetitive effects of common ownership," which looks at data from the airline industry, particularly the pricing for consumers, with a new focus. This working paper differentiates two types of common ownership: intra-industry – that is, cross-ownership within an industry – and inter-industry – that is, cross-ownership that spans many industries, as seen with the major index funds and especially the Big Three. For example, in the airline industry, if United and Delta have similar shareholders, that's intra-industry ownership. If United is owned by broad-based shareholders who have stakes in many non-airline firms and/or the S&P 500 index, that's inter-industry common ownership.

Based on the theoretical work that we have done in this area (see "General equilibrium oligopoly and ownership structure," published in *Econometrica*), inter-industry should be associated with lower airline prices for consumers, and intra-industry should be associated with higher prices.

Why did you look at airlines here?

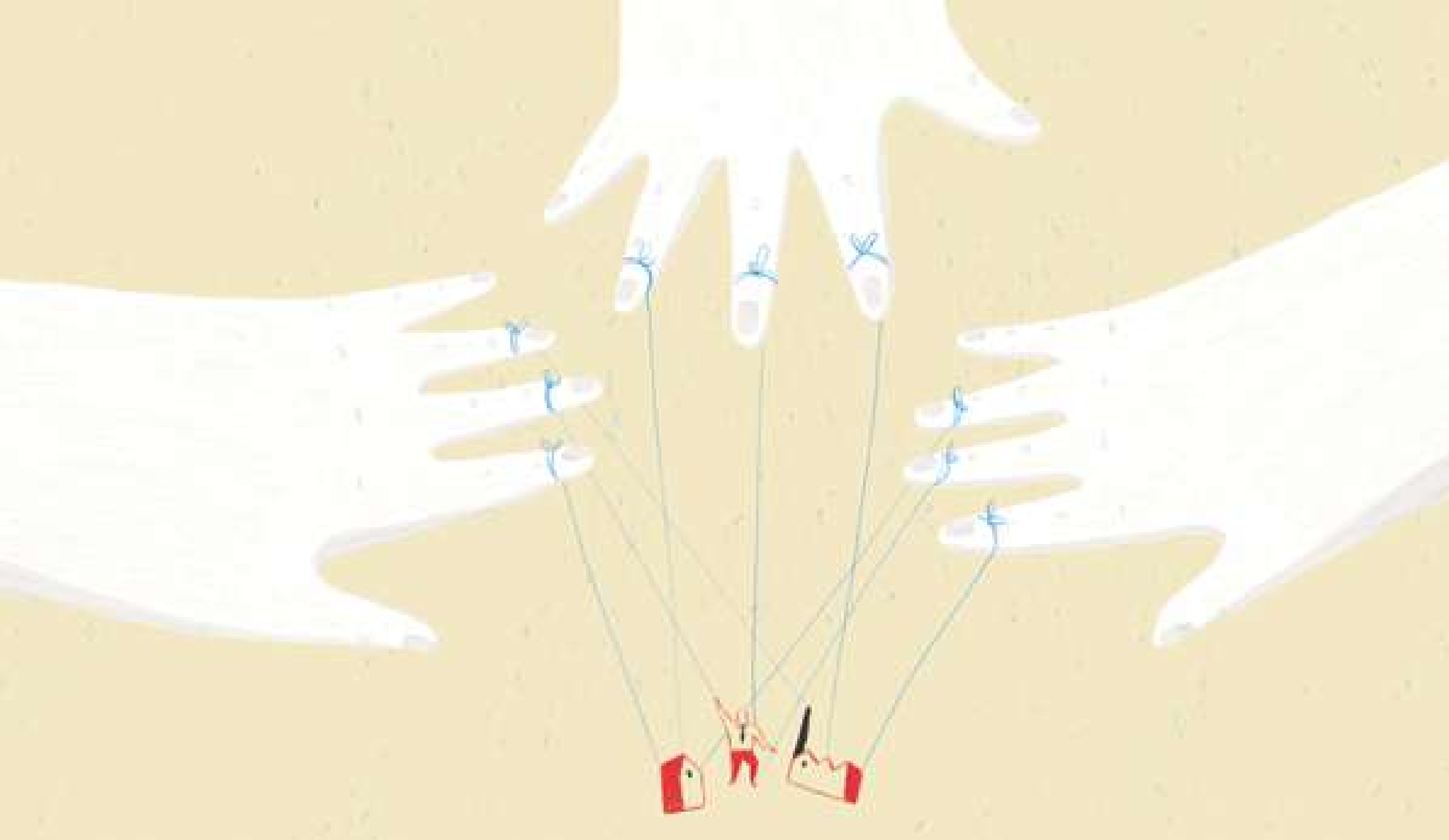
A few years ago, I published a paper with Martin Schmalz and Isabel Tecu, "Anticompetitive effects of common ownership," which attracted a lot of attention. (See "Why the presence of common shareholders in rival companies looms as a threat" in the *IESE Insight* portal.) This paper found higher prices on airline routes with higher intra-industry common ownership. This raised some antitrust questions.

Now, we are retesting that work in light of our *Econometrica* paper, which means we are distinguishing intra- and inter-industry common ownership for the first time with this airline data. And the general equilibrium theory holds: more inter-industry common ownership is actually associated with lower prices.

It's interesting that our motivation for the paper may have come from the rapid rise in the Big Three, but the effects we documented in our previous paper were coming from the other, less diversified common owners, not the Big Three. So, don't blame the Big Three for higher airline prices!

Still, as inter-industry common ownership grows, our general equilibrium framework points to workers' wages and employers' labor-market power as potential problem areas. What will the effects on workers be if common ownership continues to grow? That is one line of research we are working on now.

Our theoretical *Econometrica* paper puts everything together – monopsony, product markets, common ownership and more. We look at airline data to understand common ownership's effects



on pricing, but we also know you cannot just isolate one market: all markets must be considered.

So, your new paper helps explain your "general equilibrium oligopoly" paper? Because we could use some further explanation...
(Laughs.) Yes, that was probably the hardest paper I ever worked on. I really learned a lot by doing it, but it took me a few years to process all the messages. What this theory predicts seems very counterintuitive: that diversified common ownership spanning the whole economy should *reduce* product market markups. It's great to work on a paper that makes this prediction and then test it to find that it really works!

Tell us about another paper you have written with IESE's Liudmila Alekseeva (PhD candidate), Mireia Giné and Sampsa Samila, along with Bledi Taska of Burning Glass Technologies. What's the message of "The demand for AI skills in the labor market"?
In that paper, we document a huge increase in employers' demand for AI skills, and we also document the wage premium offered for those AI skills. On average, there is an 11% wage premium for job vacancies that explicitly require AI skills. We even see the AI premium for job openings within the same firm. Our data tracks through 2019, but I would say, by now, demand and wage premiums are probably even higher. ■

READ MORE: "Beyond the target: M&A decisions and rival ownership" is published in the *Journal of Financial Economics*. https://doi.org/10.1016/j.jfineco.2022.01.002

"Revisiting the anticompetitive effects of common ownership" was posted to VoxEU.org, the policy portal of the Centre for Economic Policy Research (CEPR), on June 15, 2022. https://voxeu.org/article/revisiting-anticompetitive-effects-common-ownership

"General equilibrium oligopoly and ownership structure" is published in *Econometrica*. https://doi.org/10.3982/ECTA17906

"Anticompetitive effects of common ownership" is published in *The Journal of Finance*. https://doi.org/10.1111/jofi.12698

"The demand for AI skills in the labor market" is published in *Labour Economics*. https://doi.org/10.1016/j.labeco.2021.102002

BREAKING THE MOLD

By Roger Martin

Executives are notoriously in love with frameworks or models. But could they be doing more harm than good? Here we examine three classic business issues from fresh angles. Time to break the spell of the tried-and-tested model.

ILLUSTRATIONS: Ana María Abellán (Pictocactus)

Is there a better model out there that would produce results more in keeping with my goals?

Five forces, CAPM, the 4 P's: We in business education frequently teach such frameworks, practices, theories – what I call "models" for short – and executives and managers use them habitually until, over time, they become embedded in our psyches. When one model rises to the top, it becomes the received business wisdom that no one ever questions. To question it is difficult: It means you would have to come up with a new, better model from scratch. It's also socially risky: Who are *you* to challenge what everyone else holds to be true? It should come as no surprise, therefore, that when one of these models doesn't seem to work, rather than reject the model, we will instead blame ourselves for failing to apply it correctly. So, we go back and apply the same model again, this time more vigorously, hoping for a better result.

To be clear, I'm not against models per se. There's a reason why, in the battle of ideas, one model emerges as dominant because, in a certain context, it has been proven to work. As a species, human beings like models: They are handy shortcuts to help us live our lives. If we can apply a known and accepted way of thinking to a familiar problem that others have faced before, then it saves us time and effort and is a lot less daunting than us trying to figure it out for ourselves.

But my four decades as a strategy adviser have taught me that there are some situations in which applying a model simply doesn't work, and to do so is the well-known definition of insanity: doing the same thing over and over again and expecting different results. I come from the Karl Popper/Imre Lakatos school of falsification. I don't believe there are right or wrong answers, just better or worse ones, and if presented with a model, I prefer to ask: Why does it work? Does it always work? Does it work in this case? And if not, is there a better model out there that would produce results more in keeping with my goals in this new context?

In my latest book, *A New Way to Think*, I take a fresh, critical look at some of the common models used by default in business today and turn them on their heads. I propose alternative ways of approaching the same issue – not 14 "correct" new models, but 14 new or different ways to think about a topic that might expand your range of possibilities and deliver an outcome more effectively than the old model. And I would welcome the next thinker who will improve on my ideas.

For the purposes of this article, let's look at three business areas that I believe require a new way of thinking.

1. Talent

Talent is expensive, particularly managerial talent. The latest figures for U.S. chief executives are eye-popping: $14.2 million was the median pay for CEOs of S&P 500 corporations in 2021, a new record, even with the pandemic. The belief that big monetary rewards are key to the recruitment and retention of top talent persists, despite the fact that in my 40 years of working with really top-talented people, I have yet to meet one who was solely or even highly motivated by compensation. This is not to say I haven't met plenty of money-motivated people. Indeed, there are CEOs who pump up the value of their companies in order to sell them, investment bankers who collect big fees by getting their clients to acquire companies they shouldn't, and consultants who sell expensive services their clients don't really need.

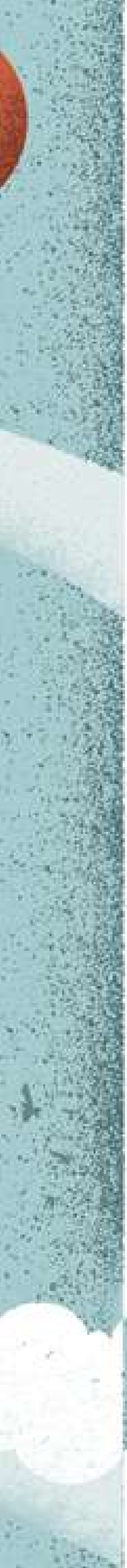
At the same time, we see talent moving around, even more frequently since the pandemic. If money were everything, then why do highly compensated people leave extremely well-paid jobs? I would say it boils down to three things managers must *never* do when it comes to talent:

NEVER DISMISS THEIR IDEAS. Talented people have invested a lot of themselves to get where they are. They want to have a say in how they apply their skills. They won't take lightly to being dismissed out of hand.

NEVER BLOCK THEIR DEVELOPMENT. If talented people feel their path forward is blocked and they are constantly told, "Maybe next year," you can be sure they will look for opportunities elsewhere. The usual HR model tries to treat employees homogenously and limit opportunities to rigid timeframes. But individuals want to keep learning and growing. Success should be achievable, not dangled just out of reach.

NEVER PASS UP THE CHANCE TO PRAISE THEM. Talent rarely, if ever, ask for praise directly – but you can be sure they want it and will become sad or even resentful if their efforts go unrecognized. Who doesn't like an occasional pat on the back? But a generic "Great year!" given to the team will not suffice and will be taken negatively, even if accompanied by a financial reward. Recognition needs to be given in a sincere, individualized way, tied to specific accomplishments. Don't just acknowledge but *celebrate* when progress has been made.

For proof of all this, consider Eric Yuan, who developed Webex into the leading videoconferencing company, which was then acquired by Cisco, and Yuan became VP of engineering for the tech giant. In 2010, Yuan proposed making a smartphone-friendly version of Webex, but his idea was dismissed. Despite his high-salary, high-status corporate job, Yuan decided he had no choice but to leave and build his own startup. He created Zoom, which, as we all know, has gone on to displace Webex as the dominant videoconferencing application today. Not only did Cisco/Webex lose essential talent, it spawned a deadly competitor with which few see Webex being a legitimate contender today.



2. Control

We often talk about businesses competing with one another as if competition were some cosmic battle of Company A vs. Company B. In fact, competition actually takes place at the coalface, way below the level of "the corporation."

There are numerous organizational models and theories of "the firm," often conceived as hierarchies, with those higher up giving orders to people down below, and the manager's job is to control and coordinate a vast web of actors. Competitiveness, then, is defined in terms of reducing coordination costs, finding efficiencies, and exploiting the scale and scope of the firm's operational capabilities.

However, I think of competition in different terms – as what happens at the front line, not at the head office. So, it's not Procter & Gamble vs. L'Oréal vs. Unilever vs. Johnson & Johnson, but rather how shampoo buyers think Pantene competes with Fructis, which competes with Dove, which competes with Neutrogena. Understanding competition as something that happens around individual customers rather than as a war between organizations upends much of what managers assume, consciously or not, about mission, strategy, culture, organization and decision-making.

> A better model of leadership is not control but assistance. Are you all about control or are you net assisting?

Leading a business needs to be seen less as a challenge of managing organizational complexity and more about making sure that value is maximized at the front lines. This calls for an approach that respects the insights of the people in direct contact with customers. And it is not structured and motivated around optimizing their resources and capabilities. Rather, it is focused on identifying what's needed to deliver value right in front of the customer, and then mobilizing assets and resources to deliver the biggest bang at the front line.

Conceived this way, a better model of leadership is not control but assistance. Any entity or layer above the coalface should only exist to the extent that it helps those at the coalface be a better competitor. If not, it's a dead weight on competition. As an organizational leader, ask yourself: Are you all about coordination and control, or are you net assisting?

3. Data

The explosion of big data has reinforced the idea that all business decisions must be made on the basis of rigorous data analytics. Just the facts. This is appealing to many managers who come from science backgrounds and have been educated in MBA programs that for most part have tried to teach management like a hard science. But is business a science? Can management decisions really be reduced to an exercise in data analysis?

I don't believe they can. I would argue that truly great choices require imagination more than data. Let me explain.

On the scientific method, Aristotle famously said it must be used when things "cannot be other than they are." So, for immutable laws like why the sun rises every day and why objects fall to the ground, that works. And for some specific business problems, the scientific method may be valid. Even so, be careful: Remember, the data you are analyzing is always in the past, and your analysis is implicitly assuming the future will be the same as the past. Data analytics only make sense when you can be sure the future will be identical to the past.

For things that aren't so deterministic – when things *can* be "other than they are" – Aristotle had this to say: "Most of the things about which we make decisions, and into which therefore we inquire, present us with alternative possibilities." And in this realm of possibilities, it is human invention and persuasion, not scientific analysis, that apply. So, for these types of business problems, it is better to imagine various possibilities and then choose the one for which the most compelling argument can be made.

Unfortunately, our obsession with analyzing everything has drawn our eye to the mean or median of the distribution. Ironically, we obsess over doing detailed data analyses, then bemoan the fact that our companies aren't being innovative enough. Yet, innovation often comes from paying attention to the anomalies – those things that lie outside the average. To innovate, we might do better averting our eyes from the mean and spending more time exploring "alternative possibilities."

In practical terms, I find it's useful to come up with several narratives. Be expansive at the beginning. It should be a group effort where you entertain a lot of different ideas. Then, begin experimenting with prototypes to test those ideas, getting users to react, and record their reactions. Doing this will generate relevant data demonstrating what may or may not work. You arrive at data by reverse-engineering the analysis. So, taking one possibility, ask: What would have to be true about our industry for this possibility to be true? Are these things true now? If not, can we make them true? Search for the things that are surprising and probe them further. When faced with outliers, ask: How could someone doing something so wacky be that successful? In this way, you are beginning to lay out the strategic logic behind a possibility.

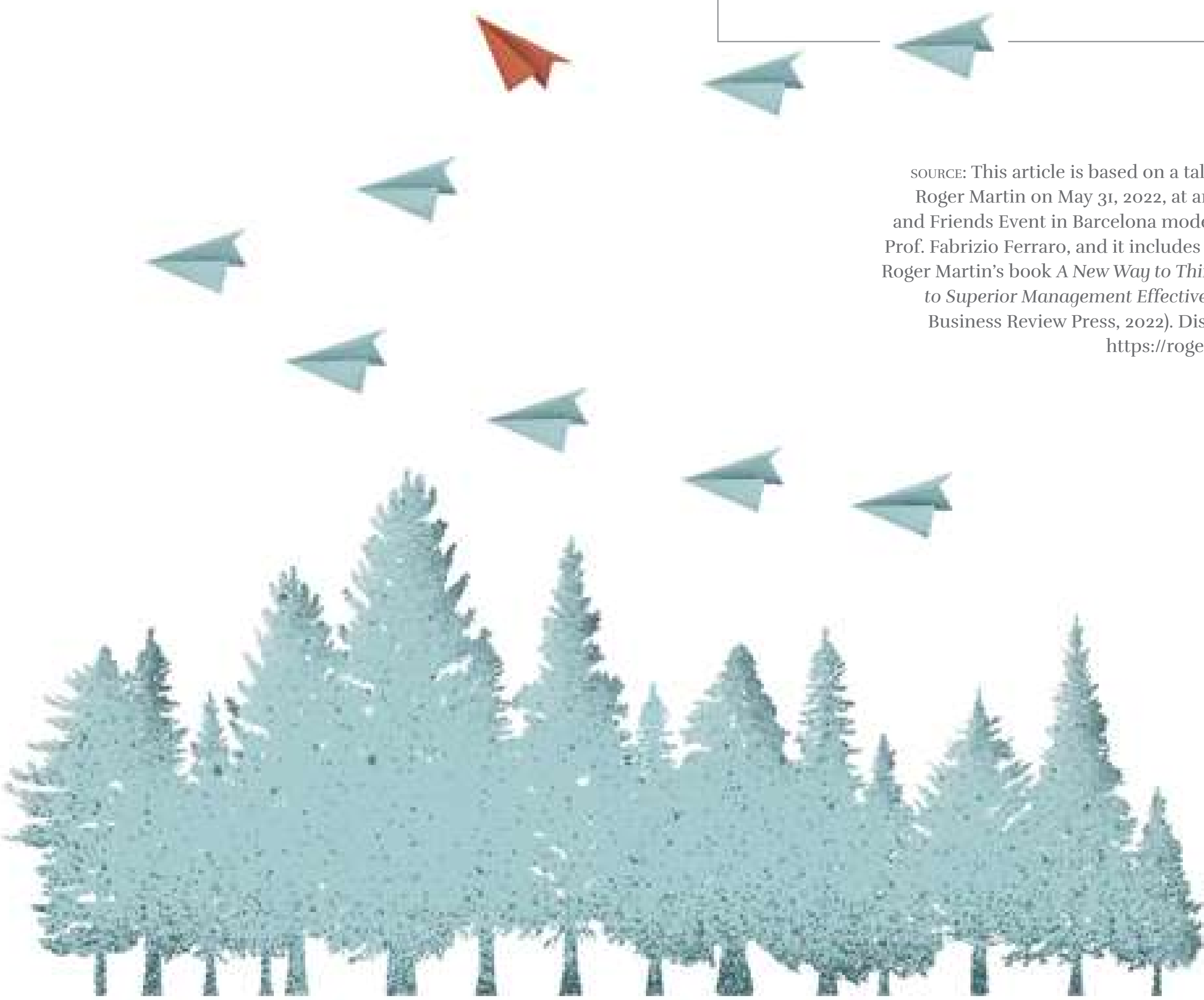
> Innovation often comes from paying attention to the anomalies

Model behavior

I hope this article has got you thinking – or, more accurately, rethinking. Perhaps the alternatives I have presented here will inspire you to try something new, rather than continuing to reapply a flawed model. Try your new idea out, but give it a short leash; if it doesn't turn out to be effective, you can always go back to the dominant model without any lasting damage – and all the wiser for having learned something through the process. My plea is for you to be tough on models and take ownership of the ones you decide to use. After all, you're the boss: Do you own your models or do your models own you? ■

The author

Roger Martin is Professor of Strategic Management, Emeritus, at the University of Toronto's Rotman School of Management, where he also served as Dean (1998-2013). In 2017 Thinkers50 named him the world's No. 1 management thinker. He has published 12 books, including *When More Is Not Better* and *Playing to Win* (with A.G. Lafley). Martin is a trusted strategy adviser to the CEOs of many global companies. He holds a BA from Harvard College and an MBA from Harvard Business School.



SOURCE: This article is based on a talk delivered by Roger Martin on May 31, 2022, at an IESE Alumni and Friends Event in Barcelona moderated by IESE Prof. Fabrizio Ferraro, and it includes material from Roger Martin's book *A New Way to Think: Your Guide to Superior Management Effectiveness* (Harvard Business Review Press, 2022). Discover more at https://rogerlmartin.com/

FULL STOP

TO THE FUTURE AND BEYOND

Reaching a better future starts now in the way you imagine it and the steps you take to get there. Do try this at home!

"There is no single future 'out there' to be predicted. There are many alternative futures to be anticipated and pre-experienced to some degree."

Jim Dator, influential futurist

Could imagining possible futures help us navigate toward a better future?

How do you imagine the future to be? Books and movies have long fantasized about the future. If *Blade Runner 2049* is to be believed, in 27 years' time corporations will be fabricating bioengineered humans to serve as slaves. If that sounds too dystopian, IESE's José Ramón Pin recently wrote a book set in the year 4344 predicting the establishment of interstellar colonies, where the Church's outreach continues and, though it may be wishful thinking, we'll continue to enjoy pizza and ice cream!

Could imagining possible futures, like these, help guide us today? Could doing so even help us navigate toward a better future, potentially saving us from disaster?

These were some of the questions posed in an exhibition titled "The Great Imagination: Histories of the Future" and related workshops. The ideas of the influential futurist Jim Dator served as pillars for the exhibition, which was first held at the Espacio Fundación Telefónica in Madrid in the spring of 2022 and may be touring soon.

But before we understand where we are going, we need to understand where we are coming from. As Dator wrote: "It is not possible to think usefully and creatively about the future of anything until you understand its rationale for coming into existence, the many different facets of its past."

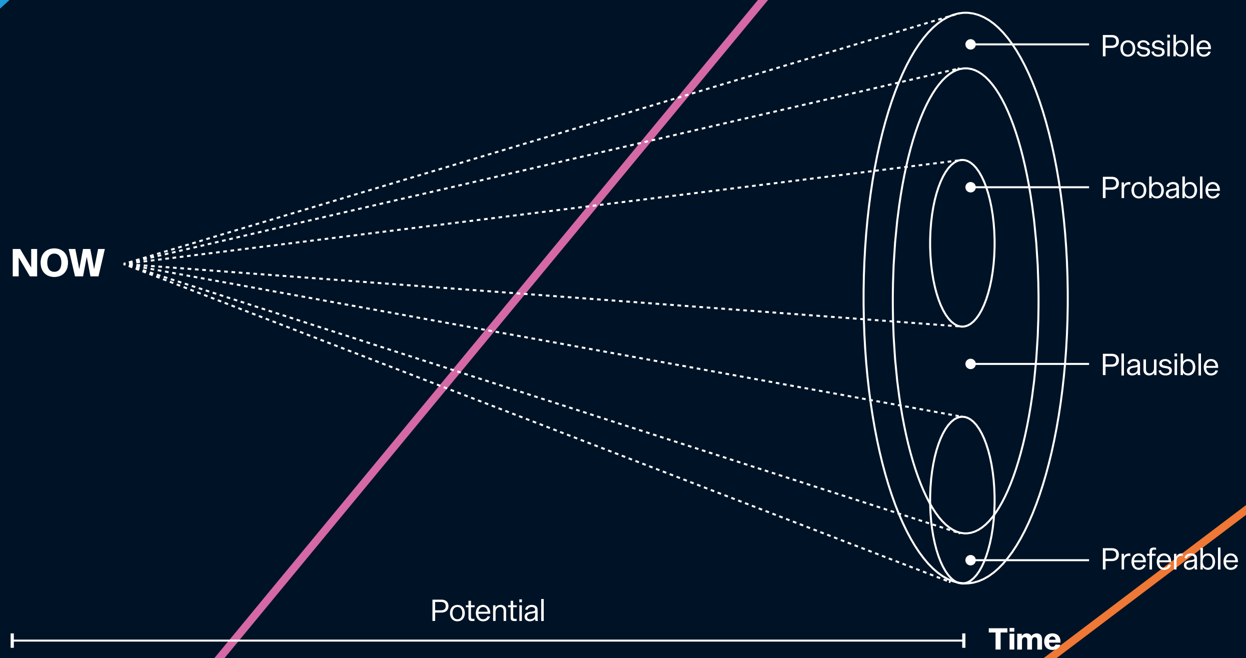
The future starts in the past

In the Western world, some of the very first portrayals of fictional futures emerged during the Industrial Revolution of the 18th century. Louis-Sebastien Mercier's novel *L'An 2440, rêve s'il en fut jamais (The year 2440: A dream if ever there was one)* is credited with spawning the genre of science fiction based on utopian visions of the future. Mercier wrote of an egalitarian future, a mere 18 years before the French Revolution of 1789, which highlights a core truth about futures thinking, as the exhibition noted: "The imagination is responding to a specific set of material and social circumstances that, in turn, makes the future possible. More than being a cultural curiosity or expression of the society that produces them, these images of the future actually play a role in animating and directing social change." In other words, futures thinking can conceivably accelerate historic change.

Yet it wasn't until the middle of the 20th century that future sparks really flew during what was known as the Great Acceleration. Earth scientists named it thus because of the dramatic jump in wealth, population, and the use of energy and natural resources – an acceleration that shows no sign of slowing down.

Ever since the first atomic bombs dropped in 1945, human interference in the Earth's ecology has become increasingly blatant. Human activity is "creating a new version of an old planet," wrote Peter Engelke and J.R. McNeill, co-authors of the book, *The Great Acceleration: An environmental history of the Anthropocene since 1945*.

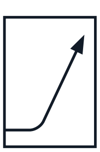
Suffice to say that ever since the Great Acceleration began, exponential changes have fed our imaginations to dream up even more change. Particularly in modes of transportation, the means of communication and the design of cities (think Metropolis and Gotham), fiction has helped shape fact. Where next?



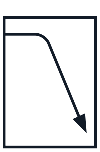
Organizing possible futures

Some futurists use the "futures cone" to depict the realm of what's possible, plausible, probable and preferable (as well as what's improbable). The cone's shape expresses the idea that the further we look ahead, the more open these futures become.

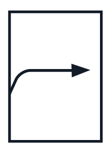
To organize our thinking, we return to Dator, who proposed that most future imaginings can be sorted into one (or more) of four categories, as explained below:



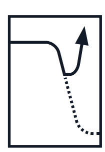
1. Growth
Growth is by far the most common of the four alternative futures. It's a favorite subject of politicians, central bankers and businesspeople far and wide. Will the Great Acceleration ever end?



2. Collapse
Moving in the opposite direction is a subject many avoid. But that doesn't mean "collapse," and what it might entail, shouldn't be seriously considered. What's more, Dator writes that collapse may not be a worst-case scenario. If it doesn't lead to extinction, it leads to a "lower" stage of development, which may usher in a simpler life or a return to less materialistic values.



3. Discipline
Discipline may conjure images of dystopian, authoritarian controls – say, George Orwell's *1984* or Margaret Atwood's *The Handmaid's Tale*. Yet taming society's excesses or simply limiting energy use could help preserve finite resources. A disciplined future may be guided by values that are spiritual, natural, religious, political and/or cultural.



4. Transformation
The transformation scenario is the most disruptive of the four. In Dator's view, "it anticipates and welcomes the transformation of all life, including humanity from its present form into a new 'posthuman' form, on an entirely artificial Earth, as part of the extension of intelligent life from Earth into the solar system and eventually beyond." Who is ready for that? Time to prepare!

Witnessing change begets imagining which begets more change

Today's challenge

In 2022, approaching 2023, we seem to be at a crossroads. The world is emerging from a pandemic and dealing with the fallout of war, economic uncertainty and climate change, while still grappling with the repercussions of digitalization and artificial intelligence. In these turbulent times, rapid change is the reality for *most* people on Earth. And, as we've seen from the past, witnessing change begets imagining which begets more change.

Working with the exhibition, the Spanish design agency Prodigioso Volcán (full disclosure: they are the art directors of this magazine) led workshops on overcoming common barriers to strategic thinking so that all of us can use our own great imaginations to create stories of the future that can be translated into strategic decision-making. Try this activity for yourself and/or with your teams.

FOCUS ON A FUTURE POINT. Choose a year at random, a specific point in time at least 20 years from now. Then, assign a scenario of Growth, Collapse, Discipline or Transformation to that year. For example, what might Collapse look like in the year 2050? Of course, that depends on what is collapsing, when and how. You will also have to consider what would have to happen between now and then to move us there.

BRING IN ADDITIONAL PROMPTS. Factor in trends, macrotrends and signals, such as the six macro forces in the famous PESTEL framework:

P E S T E L

Political. Will democracy exist? With majority rule? Have any individual or collective rights been suppressed? Have any been expanded? How are international relations between nations faring? Does the concept of private property still exist?

Economic. Which sectors of the economy are most important? Do banks exist? Which are the principal measures of growth or progress? Are we in crisis or has growth continued?

Social. What demographic changes will we see: more old people, more young people, higher birthrates, higher mortality rates? What will the primary social structures be: will we identify primarily as families, couples, individuals, communities or tribes? What will people's main concerns be? Which illnesses might we suffer from most? What will the principal cultural expressions look like, including customs and modes of living?

Technological. What will be the principal advances in technology in this future? What types of devices will be used each day at home, at work and in leisure time? Will Big Tech like Google and Facebook continue to exist? What role will technology play in teaching and learning?

Environmental. How will we get around? Will we live on Planet Earth? How will cities be? Will people continue to live in them? Will there be access to basic resources, such as water, food, energy and housing?

Legal. What judicial systems exist? What is the regulatory role of the European Union? What about the United Nations and NATO? Do large multinationals face more or fewer restrictions? Does the death penalty exist?

CREATE A MOOD BOARD. In addition to PESTEL prompts, try creating a "mood board" of interesting images, textures and colors to evoke your chosen year.

CREATE FUTURE TIME CAPSULES. Using your PESTEL framework and mood board, identify specific trends to be analyzed further. Dig deeper into these trends and how they might evolve over time, again referring to Dator's four archetypes.

FINALLY, PLAN FOR YOUR FUTURE. What could you do to move forward to your best future imaginable?

Time to roll up your sleeves and visualize how many futures might be possible, plausible, probable and preferable. Go ahead: Let your imagination run wild! ■

READ MORE: Visit "The Great Imagination: Histories of the Future" (in Spanish) at https://www.prodigiosovolcan.com/proyectos/aceptamos-el-reto-disenamos-el-futuro/

"Alternative Futures at the Manoa School" by Jim Dator is published in the *Journal of Futures Studies* (2009).

Falling in love with the future by Miquel Lladó (Plataforma, 2021) offers a practical, business-oriented look at how to point yourself to, and prepare yourself for, the future career you want. Sharing his own work methodology as an executive in multinationals – as well as his wide-ranging readings as a teacher of strategy and management at IESE – Lladó encourages readers to put themselves in the very future that they aspire to, in order to make the best decisions to "lead us there and nowhere else."
https://www.ieseinsight.com/doc.aspx?id=2348&ar=&idi=2

Why do we behave the way we do?

To answer this question, IESE has set up a new state-of-the-art Behavioral Lab on its Barcelona campus for professors to carry out research into decision-making, behavioral economics, consumer behavior and organizational behavior.

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