360°

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MAIN FEATURE:

Think again: the red flag conditions that can lead to bad decisions

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- Leadership skills for the 21st century
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My angle

At the time of the death of Nobel Laureate Milton Friedman in November 2008, the business world was experiencing a financial and economic crisis that had arisen – at least in part – as a result of behaviours of slavish adherents to his philosophy: “The social responsibility of business is to increase profits”. For some time this thinking has been challenged by the corporate social responsibility movement that prefers to widen the responsibility of business to benefit shareholders, customers, employees, suppliers, society and the environment. Far less controversial is Friedman’s other famous statement: “There’s no such thing as a free lunch”, which has become common parlance.

The world is regrettably full of examples of people taking free lunches. It leads to poverty, deprivation and diminishing of the world’s natural resources, at the expense of future generations. Conditions of life at the Bottom of the Pyramid are evocatively described in the research report on which the article *A role for business at the bottom of the pyramid* is based. Issues of world poverty and sustainability have recently – to some extent – been crowded out of the headlines by the ‘big’ issues of global recession. The numbers involved in banking bail-outs and rescue plans dazzle the mind, and it’s difficult not to speculate what the impact of such sums might have been had the money been invested in ‘expensive’ but sustainable ways of doing business, or to underwrite Third World trading through which some – rather than maximum – profit can be made, as authors Edgar Wille and Keith Barham demonstrate. Even the money being sunk into attempts to restart the economy across the world is dwarfed by the economics of climate change, which Matt Gitsham and Kai Peters remind us, in their article *Leadership skills for the 21st century*, could amount to 20% of the world’s GDP.

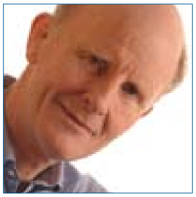
The article identifies the skills that leaders will need if they are really going to put issues of sustainability at the heart of their business and stop depleting the planet’s natural resources. This will fairly certainly involve creating cultures where the maximisation of *profits with values* is rewarded more than the maximisation of *profits per se* – which Roger Delves’ *Perspectives* article suggests has been the case for many years and is figural to the current crisis. With many businesses folding or being taking over, there is considerable churn in the leadership arena: new leaders taking on organisations in troubled times are having to hit the ground running and would benefit from Andrew Day’s *Executive transitions* article, which could help to make the first hundred days more effective.

Even with the best of intentions – as claimed by those high profile bankers currently making public apologies – mistakes can be made. When the research for the book on which our lead article *Think again* began, Andrew Campbell and Jo Whitehead cannot have dreamt of the global scenario into which it would be launched. The reason good people can make bad decisions is largely down to the brain, we discover. Readers will be even more suspicious of their own judgment if they read Vicky Culpin's *Wake-up call for sleepy managers* article and discover that burning the midnight oil in or out of the office can have the same results as intoxication!

All around us, there are calls for new ways to exchange goods and services that can restore confidence, trust and stability. It's difficult not to imagine that there will be increasingly stringent regulation in the financial word and leaders creating new governance structures – as well as managers across the globe – would do well to note the positive steps our lead article suggests in order to counter our predisposition for flawed decisions.

This edition reminds us that the planet's resources are not limitless and, like wealth, are unfairly allocated. It also demonstrates that mind and body cannot be relied upon to always get it right. How then, can the world emerge from crisis? How can truly reliable leaders be developed? Perhaps the answer lies in the *Perspectives* piece: the time is right for creation of a new order where organisations go beyond glib statements of mission and corporate values to do business where no-one takes a 'free lunch' at the expense of the world and people around us. If this edition prompts us all to reflect on our own values in our daily lives, management and leadership roles as we participate in creating a new financial, economic and business environment, it will have served a good purpose.

Baroness Usha Prashar CBE
Ashridge Governor



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Think again – how good leaders can avoid bad decisions

Andrew Campbell and Jo Whitehead, of Ashridge Strategic Management Centre, provide insights from their newly published book, co-authored with Sydney Finkelstein of Tuck School, Dartmouth, USA: *Think Again – Why Good Leaders Make Bad Decisions and How to Keep It from Happening to You*.

Events in global finance in the last year have provided an abundance of examples of how organisations super heroes as they were hailed until recently can simply get it wrong. So did regulators and politicians. However, bad decisions affect not only our banking system, but the broader world of business and politics. Take the decision by Bush and Blair to invade Iraq; the decision to base a new global airline alliance in Zurich that led to the bankruptcy of Swissair; and the delay in deploying the Interagency Incident Management Group whilst Hurricane Katrina lashed New Orleans, due to a continuing belief that the levees were holding out. Everyday decisions to hire or promote key managers, to invest in new technologies or acquire new businesses, can be fatally flawed from the outset. Starting from our premise that most good leaders intend to make good decisions, we set out, some four years ago, to explore why so many make bad ones.

In our book, we draw on decision neuroscience to explore why our decision making processes can be flawed and identify four main reasons for bad decision-making. We researched 83 examples of bad decisions from private, public and charitable sectors across the world, providing an analysis of which of those four factors was responsible. We go beyond raising awareness to suggesting practical ways in which leaders can safeguard their decision-making processes, to avoid making similar mistakes and ensure the best possible outcomes in the future.

How our brain can let us down

People often ask, with incredulity, how experienced and clever people can make such bad decisions. Bad decisions are often simply the result of the downside of brain processes that have served humankind well and are usually but not always reliable. Decision neuroscience reveals that the brain depends primarily on two hardwired processes for decision-making: pattern recognition and emotional tagging.

Pattern recognition

Pattern recognition is a complex process that integrates information from many parts of the brain. Faced with a new situation, the brain makes assumptions based on prior experiences and judgments that have been stored in memory. Let's look again at Hurricane Katrina. Matthew Broderick, chief of Homeland Security Operations Center, had learnt from his experiences in military operations in Vietnam and in previous hurricanes, that early reports surrounding a major event are often false. It's better to wait for a ground truth from a reliable source before acting. Despite 17 reports of major flooding and levee breaches some 12 hours after Hurricane Katrina struck, Broderick believed reports from the Army Corps of Engineers that there were no breaches, plus a CNN report of residents partying in the belief they had escaped unscathed. And so he took off from the office and went home, after issuing a situation report that the levees had not been breached. His pattern-recognition process told him that until he had reliable reports of flooding he should take no action. What his brain could not take into account in his decision making process, was the fact that Broderick had not experienced a hurricane in a city built below sea level. Unlike in Florida, where floods caused by storms rapidly retreated back to the sea, the consequences of a breach of the levees in New Orleans would be disastrous. Rather than waiting for ground truth, Broderick needed to be better safe than sorry.

Many leaders will have had experiences similar to Broderick's. How many times, on moving to a new organisation, have we instinctively resorted to imposing solutions and approaches that were successful in our previous organisation and with our previous team, only to discover that they simply don't work this time round?

Emotional tagging

Emotional tagging is the process by which emotional information attaches itself to the thoughts and experiences stored in our memories. This emotional information tells us whether to pay attention to something or not, and it tells us what sort of action we should be contemplating (immediate or postponed, fight or flight). If parts of our brain controlling emotions are damaged, even though we retain the capacity for objective analysis, we become slow and incompetent decision makers. Emotional tagging was at play in the case of Wang Laboratories, the most successful company in the word-processing industry in the 1980s. Founder An Wang believed he had been cheated by IBM over a new technology he invented early in his career. His dislike of IBM led him to create a proprietary operating system even though the IBM PC was clearly becoming the dominant standard in the industry. This flawed decision led to the company's demise in the 1990s.

The instinctive route to decision-making

Faced with a decision, we assess the situation and arrive at a decision to act or not by using pattern recognition and emotional tags. But why can't we spot the distortions of our own thinking? Why don't we counterbalance what we might be aware of as gut reaction, with extra rational thought and data? One of the primary new insights we have gained is how little of our own decision processes we are able consciously to audit. As research by Gary Klein[1] demonstrates, pattern recognition and emotional tagging happen almost instantaneously and our brains leap to conclusions, reluctant to consider alternatives. We then make an emotional investment in our initial, automatic judgment.

We are particularly bad at revisiting our initial assessment of a situation our initial frame. This was reinforced by our fieldwork: in 80% of the cases listed in our book the decision maker made their choice without careful weighing of the options. By nature our brains do not lay out options and evaluate alternatives. We rely on unconscious processes to bring a plan of action to our consciousness and then assess that plan to see if it makes sense, before considering others. If we imagine that our first plan will work, we do not normally consider alternatives. So our brains work in a one-plan-at-a-time process (**see Figure 1**). The resulting plan we arrive at will be tagged with an emotion determined by the level of confidence we have, in our imagination, of what will happen and the positive emotions we have towards expected outcomes.

The one-plan-at-a-time process

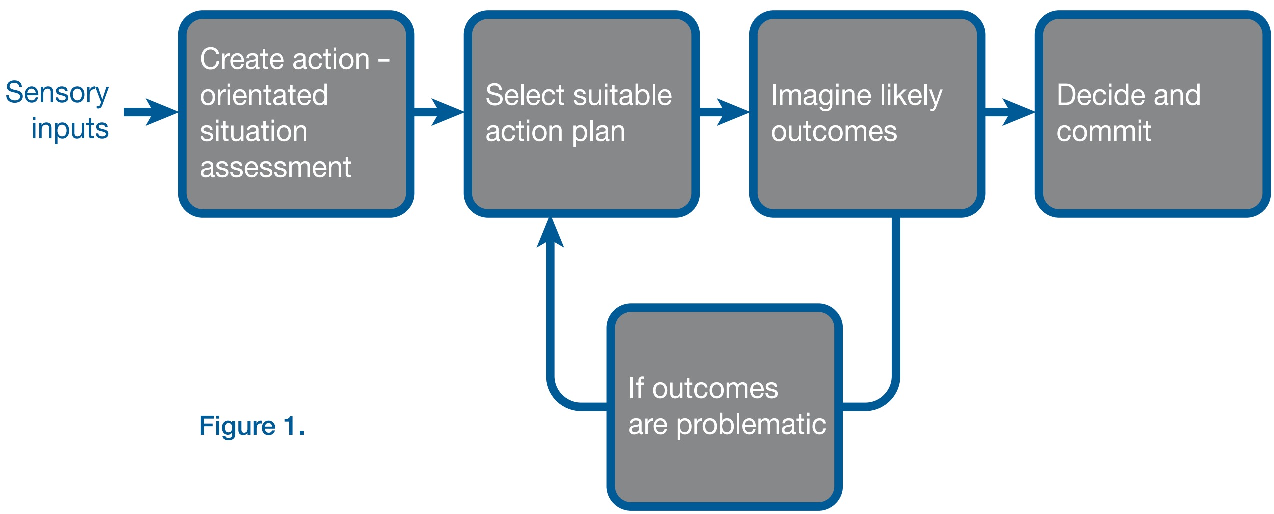
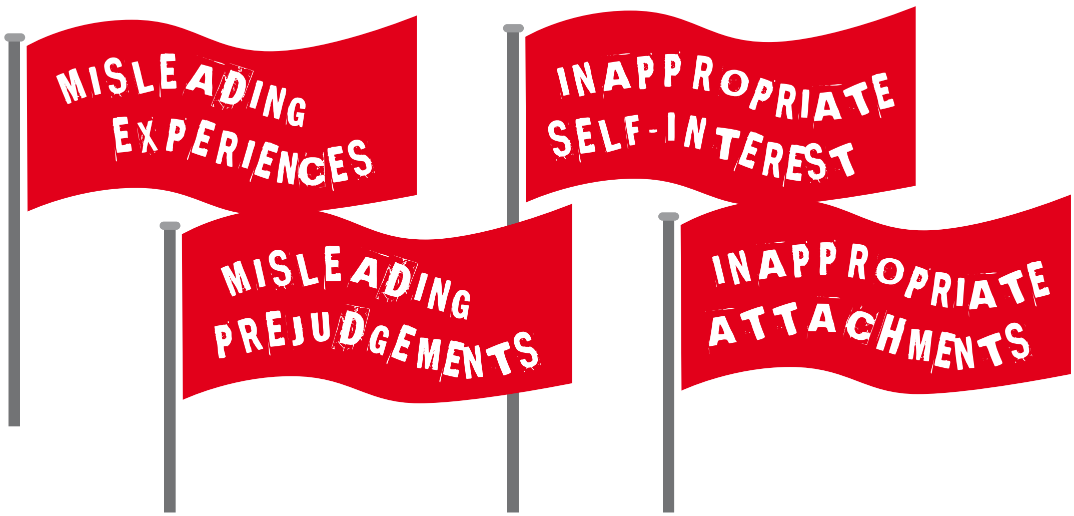


Figure 1.



Red flag conditions

If we recognise that our brains can lead us to arrive at flawed decisions, what can leaders do to increase their chances of avoiding pitfalls? First, recognise the conditions under which decisions are more likely to be flawed. We have identified four red flag conditions that are likely to lead to distortions in the decision maker's judgment.

The first is *misleading experiences* and occurs when we are faced with an unfamiliar situation especially if it appears familiar. Under these conditions we can think we recognise something when we do not.

William D. Smithburg became CEO of Quaker in 1981 where he executed the successful acquisition of Gatorade the sports drink company in 1983. In 1994, the expanding company sought to repeat the success by acquiring another successful but underexploited drinks company Snapple. Smithburg failed to recognize that whereas Gatorade was promoted and distributed in a traditional fashion and a rising star in its market, Snapple was a quirky, entrepreneurial organisation producing an image drink that was already losing market share. The acquisition was disastrous, leading to the downfall of both Smithburg and Quaker itself.

Another red flag condition is when our thinking has been primed before we begin to evaluate the situation, by previous judgments or decisions we have made that connect with the current situation. We refer to these as *misleading prejudgments*.

Steve Russell, the CEO of Boots between 2000 and 2004, had a potentially misleading and strong prejudgment that Boots needed to grow and that health-care services were an attractive opportunity. In his own words: "I had been formulating this ambition for Boots since I was merchandising director in the late 1980s. So, when I became CEO, I was determined to make it happen." With hindsight, he commented: "We did not have the know-how to make these services work. We should not have tried to do so much of it ourselves." Other managers suggested that many of the services Boots tried to enter were inherently low-margin businesses. A turbulent trading period ensued and Russell resigned in 2004.

The third red flag condition is *inappropriate self-interest* which can be a very powerful and we found often unconscious influence even among professionals who pride themselves on being objective and highly ethical. Our findings suggest that even people who are aware of the dangers of self-interest and want to control it, are actually incapable of doing so.

Prescriptions that doctors write have been shown to be influenced by the favours they have received from drug companies, even when doctors felt they were being objective. There are numerous examples of self-interest at play in business (eg Enron and Tyco) and politics. In the analysis of our current financial crisis, credit agencies may have underestimated the risk of the derivative products they rated, partly because they were paid by the issuer of these products. Our findings indicate that this would not necessarily be premeditated, but was a result of unconscious inappropriate self interest at play.

The fourth red flag condition is *inappropriate attachments*, such as the attachment we might feel to colleagues or a business when considering cost reductions.

A striking example of inappropriate attachments is that of Sir Derek Rayner, who acquired Brooks Brothers, the iconic US retail chain famous for its button-down shirts, when he was CEO of Marks and Spencer in the 1980s. In the four years of his leadership, M&S had modernised, transformed itself from a family-run company, doubled earnings per share, and grown revenues from £2.9 to £4.6 billion. And yet he paid $750 million for Brooks Brothers even though his team said it was worth only $450 million. When he announced the deal, M&S's share price fell sharply. Why did he do it?

As Judi Bevan describes in her book *The Rise and Fall of Marks & Spencer*[2], Rayner was enamoured with Brooks Brothers clothing, which was in large part aimed at men of Rayner's age and taste. Although his advisers had presented six possible acquisition targets, Rayner ignored all the others and went straight for the preppy, upmarket Brooks Brothers chain.

Apart from iconic examples, we can all cite examples from our own professional lives in which red flag conditions have existed. Even with raised awareness of these, how can we ensure that we are less likely to make flawed decisions in the future? Is it enough to rely on the wisdom of experienced chairmen, the humility of CEOs to question their own decisions, or standard organisational checks and balances? We urge all those involved in important decisions to consider whether Red Flags exist. If they don't, decisions perhaps need fewer checks and balances. But if they do, the decisions with the highest stakes should be subjected to more robust safeguards.

Safeguards

We have identified many process 'safeguards' – additions to any standard decision process that can counterbalance the effects of distorted thinking. Most safeguards are well known – the challenge is to pick the right ones for the particular red flag condition. For example, a presentation from an expert consultant might be a suitable safeguard for a decision maker who has misleading experiences about a new market entry. However, if that decision maker is a CEO with strong prejudgments, they might need a stronger challenge – perhaps from the Chairman or Board.

Safeguards can be grouped into four categories:

• *Experience, data, and analysis.* In business, there are many ways data can be collected and experience broadened. A discussion with a key customer can provide valuable feedback on a proposed new product. Market research might evaluate the risks of entering a new market. Consultants could be brought in, partly for their expertise and readily available manpower, but also because they are relatively objective. BP sometimes employs two firms of lawyers to get contrasting views for very important decisions such as major acquisitions.

• *Debate and challenge.* Creating a debate which challenges biases need not involve an elaborate process. It could mean simply chatting through an issue with a friend or colleague. However, in large organisations a typical approach is to form a decision group. The choices of who is in the group, the leader of the group and the process for the group to follow are all important issues. While many such groups operate with simple guidelines, there are a host of more elaborate approaches – such as splitting the authoriser, evaluator, and proposer roles, allocating hats to different people (as suggested by the lateral thinker, Edward de Bono), role-playing; or the devil's advocate method (in which a subgroup attacks the proposed option).

• *Governance.* Someone with power and strong prejudgments, such as Russell, may be resistant to new analysis or a group process. In this case it may be necessary to strengthen the governance process – perhaps by setting up a special subcommittee of the board to review the proposal in detail.

• *Monitoring.* Finally, particularly when there is a risk that all these safeguards are still insufficient, it may be sensible to beef up the monitoring process – for example, by setting clear milestones, monitoring performance and adjusting the strategy accordingly.

Conclusion

While it might be discouraging to discover that our brains predispose us to some errors of judgment in our decision-making, leaders can take heart. If you are prepared to be more reflective about the decision-making processes, you can identify where there are red flag conditions. Once aware of these, you can introduce extra safeguards which counterbalance the risks of a flawed decision. Whilst you can't ever eliminate the risk of errors in your decision-making, you can reduce the odds!

Further ideas are discussed in our book *Think Again* and also on our website, www.thinkagain-book.com

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A role for business at the bottom of the pyramid

In this article Edgar Wille and Kevin Barham present some of the findings of their research into approaches being taken to alleviate poverty in the developing world, in ways that are commercial and profitable. They call on readers to recognise the urgency with which action is needed and suggest ways in which organisations might engage with the BOP.

Should business be involved in any activity that is not solely devoted to wealth creation through profit for its shareholders or other owners? If so, what is the best way to create the most rapid and sustainable progress?

The debate

Profit?

Since the turn of the millennium, debate has raged, fuelled not least by books and articles by CK Prahalad of the University of Michigan and Stuart Hart, now of Cornell University, who consider that profit for companies and benefit for the BOP are not incompatible, and suggest that there is even a fortune at the bottom of the pyramid[1]. Their proposition is that from many small amounts of disposable income available among the people at the BOP (variously estimated at 4 billion people or two thirds of humanity), business could find a substantial new market, based on a strategy of aiming for large volumes of sales with small margins. Stuart Hart's book *Capitalism at the Crossroads*[2] pursues a philosophic approach and places the matter in the context of the sustainability question mark that hangs over the Earth and the human race, unless major changes are made to how we run our affairs worldwide.

Production

Other commentators have suggested that, if business could offer the opportunity for

Research scope

This pilot study set out to bring together a comprehensive sample of business activity at the Bottom of the Pyramid throughout the developing world. We have conducted interviews, liaised with the Universities of Michigan and Cornell in the USA, engaging directly with thought-leaders C K Prahalad and Stuart Hart, and carried out a wide-ranging literature and internet search.

The central part of our report considers vignettes of more than 50 international companies who positively affect the BOP by their commercial activities, applying their core competencies to meet needs in the developing countries. We also give examples of some 50 large and many small companies in the developing countries themselves, who are taking the plight of their poverty-stricken fellow citizens seriously. We provide 25 examples of NGOs who are helping businesses to gain access to and understand local situations at the BOP.

communities at the bottom of the pyramid to expand their production activity and thus increase their income, markets might be created and the BOP could become linked to the global market. Aneel Karnani, also of the University of Michigan, wrote a hard-hitting article in the *California Management Review* taking Prahalad to task for failure to emphasise this production avenue to solving the problem[3].

Partnership before profit

Nobel prize-winner Muhummad Yunus, microcredit* pioneer and founder of the Grameen Bank in Bangladesh, sets out in two books his belief that any progress by the BOP will only come about through an equal partnership with companies who, while prepared to be involved commercially, would be satisfied with less than profit maximisation[4].

Yunus is putting this belief into practice through cooperation with French food firm Danone, setting up a joint venture in Bangladesh: Grameen Danone Foods. Although operated commercially, its shareholders will forego normal dividends, enabling the new company to charge prices which are more affordable for the BOP.

Business DNA creation

At Cornell, Stuart Hart and Erik Simanis, in cooperation with Ted London of the University of Michigan, together with other academic and business colleagues, have developed a business incubation process that they call the BOP Protocol. This strongly urges business to become embedded with local BOP communities to ensure that the latter have a sense of ownership in the projects undertaken[5]. Kurt Hoffmann, then Director of the Shell Foundation, described this kind of process to us as one of developing business DNA within the BOP. In their book *Make Poverty Business*, economic development specialists Craig Wilson and Peter Wilson emphasise the need for people at the BOP to gain control over their lives; simply giving them money is not the way ahead[6].

All these participants in the discussion see the involvement of business with the BOP as making an important contribution to society and as a means of reducing the dangers of unrest, war and terrorism that can arise from such vast numbers of people being so economically deprived.

* Microcredit is the extension of very small loans (microloans) to people living in poverty who are not otherwise considered bankable because they lack the requirements, such as collateral, steady employment and a verifiable credit history, normally needed to gain access to traditional credit. The United Nations Development Programme (UNDP) report published in July 2008 *Creating Value for All: Strategies for Doing Business with the Poor* shows the significance of small, local companies in the developing world who have sometimes introduced microcredit and self-help groups, as well as cross-charging the wealthy to cover the costs of serving the destitute.

Current practice

Business approaches to working with the BOP

In our pilot study, we went beyond the debate to explore how a large sample of companies are actually working with the BOP. Some have helped the BOP by employing them and bringing prosperity to whole areas as by-products of their normal business, sensitively carried out as good citizens. Others have aimed to sell specific products and services adapted to BOP needs at affordable prices and often in small quantities to accommodate the typically small daily wages of BOP customers. As a result of commercial activity, local entrepreneurs have been encouraged to set up small businesses, often as part of the supply chain of a company; local stores have been franchised for the sale of a company's goods; local people have been trained as salespersons; microcredit and savings groups have been set up to help people to afford products and services or set up mini-businesses; agricultural and technological advice has been proffered as part of an ongoing business relationship.

Models of business involvement in the BOP

Academics at Cornell University[9] have identified three working models for engaging with the BOP:

- The **provider model**, which works on normal business principles, where the company determines what products and services to sell, consistent with their core competencies.
- The **empowerment model**, where the company listens to the interests of the potential customers and adapts its products to the needs as seen by the BOP customers.
- The **partnership model**, in which the company enters into a joint venture with a BOP community to co-create a business to be decided upon by both parties and to be run jointly until the community members are able to take full control, while ambassadors are sent out to co-create similar businesses in other communities. The area covered by the new businesses in this third model is secondary to the fact that they are learning how to run a business – any business. This model, known as the BOP Protocol, is very appealing in its call for joint ownership of the outcomes, but we wonder whether enough companies would be able to put into it the large effort required to make a big difference to the plight of poor communities. However, there are important lessons to be learned from the open and sensitive mindset the model represents.

The way ahead

Our research has indicated that much good work is being done in many locations by business using commercial approaches. But the overall global effect is still very limited, given the scale of the need. Our research strongly suggests that pessimistic lack of action is not an option. It is positioned within the wider efforts expressed by the

Life at the bottom of the pyramid

As our study proceeded, our awareness has grown of the severity of the problems faced every day by the people at the bottom of the pyramid. Research carried out by the Massachusetts Institute of Technology (MIT) on how the poor earn and spend their money, on their problems of debt, and on the lack of sound infrastructure[7], added to our appreciation of the extent of the problems. Although there is not one worldwide homogeneous BOP with a uniform combination of problems, all BOP communities suffer to some degree deficiencies across a range of issues: health, sanitation, availability of clean drinking water, food and agriculture, education, transport, communications, money, energy, shelter and legal arrangements. We describe these in our report, which also contains some 20 pages of photographs illustrating what real poverty means, as well as showing some encouraging signs of progress. The impact of poor water supply and bad sanitation on lives at the BOP is chronicled by the international charity WaterAid in its journal *Oasis*[8].

We have noted that countries like India and China which may enjoy overall prosperity, nevertheless continue to have vast numbers of desperately poor inhabitants. It is therefore our view that there is small benefit to the BOP from major business which aims at satisfying the elite and middle classes of developing countries, nor from the development of large mono-cultural plantations and extensive factories for the purpose of large-scale export for the benefit of the prosperous. For similar reasons, we do not include in our study the institutional and governmental attempts to deal with the problems on a broad basis expressed in terms of GDP.

United Nations in the Millennium Development Goals (MDGs)[10] and by the UK Government in its Business Call to Action of 2008[11] which draw attention to the unlikelihood of the MDGs being achieved by the target date of 2015. If the 4 billion people said to constitute the BOP are to be left in their current state, business itself is likely to suffer from the consequences in terms of instability and the depletion of vital natural resources. So how can progress be accelerated?

Join the debate to raise awareness

There is relatively limited publicity given in the media and public discussion to business investment in the developing world. Generally, people still think in terms of giving aid, rather than enabling poor communities to stand on their own feet in the global market place by opening up trade opportunities that do not foster dependence.

Recognise that altruism and self-interest are not mutually exclusive

We are encouraged by the growth of understanding that businesses have a role in society beyond profit maximisation and that a degree of altruism and philanthropy is not inconsistent with the profit motive. Another example of mutual advantage from a combination of philanthropy and profit-driven motivation, particularly in the current financial climate, is the potential to cultivate markets to replace maturing ones in the West. Might not 4 billion people waiting to join the world economy be just the area to turn to? Peter Sands, the chief executive of Standard Chartered Bank thinks so[12]; author and Asia expert Martin Roll sees a potentially huge value segment at the BOP in Asia[13]; Citigroup sees the BOP as looking set for much stronger income growth[14]. The UNDP, as noted, believes that business with the poor can create value for all. In view of their enormous power, multinational companies need especially to be mindful that not only do they need to be seen to contribute to society, but that they will flourish better if a more stable world can be created, without the destabilising effects of poverty and terrorism.

Be innovative

Peter Senge, one of our most influential management thinkers, sees extraordinary opportunities for innovation when we abandon fearful reactive mentalities[15]. He believes that we are at the end of the Industrial Age and that a new age is dawning, where, as Einstein expressed it: "We can't solve problems by using the same kind of thinking we used when we created them."

Any move by companies to invest in the BOP will require careful and painstaking preparation. This might involve creating structures and environments in which innovation can flourish, such as small special in-company units to begin commercially-based dialogue with a BOP community, that are not hampered by a demand for profit maximisation.

Forge alliances and partnerships

…with other businesses

Perhaps our most significant finding is that investment in the BOP is currently too random to make the considerable integrated changes that are needed by poor communities. Individual companies may deal with a very limited range of poverty-related problems at the BOP, but this means that, unless other firms complement their actions by investing in other areas of need, people will continue to suffer and may die in large numbers, because the other areas of need have gone unaddressed. For example, if one company takes action to correct a serious problem, such as lack of clean water, but no other company is doing anything about health services or agricultural advice, a BOP community may be left in as parlous a condition as before. To put one serious problem right, whilst leaving other equally life-threatening issues untouched, is to create a synergy of failure. The interwoven issues need addressing simultaneously.

Some kind of coordination is called for; the market alone will not bring this about. To achieve such coordination, a start could be made by one company taking the initiative to seek out others who could complement their own efforts. Non-competing coalitions could thus be established to work in particular BOP communities with benefit to all, perhaps under the aegis of international institutions, foundations or government departments provided that bureaucracy was minimal.

…with local companies

Companies in countries where there is a significant number of people living at the bottom of the pyramid could recognise a special responsibility toward those in their own backyard living in dire poverty. Small, local companies can play a significant role in their own right as a basis for the wider contribution from larger companies; they could, for example, play a helpful role in coordinating diverse efforts.

…with NGOs

Non-governmental organisations (NGOs), both those which are not-for-profit and those which engage in commercial activity to help fund their charitable activity, have had a significant part to play in opening windows of opportunity for companies wishing to invest in the developing world. NGOs can be important partners for businesses wishing to work with the BOP because their knowledge and experience of working within a variety of cultures can open windows of opportunity.

Our report describes a successful project in Uganda in which the *Guardian* newspaper, Barclays Bank and the African NGOs AMREF and Farm Africa are cooperating to improve life in Katine district, seeking to learn from the experience and then to disseminate new knowledge.

Self interest and altruism

As a pilot study, our research has been able to gain only a sample picture of what progress is being made toward business using commercial methods to alleviate poverty at the bottom of the economic pyramid in developing countries. We have formed the impression that, if there is not a fortune to be made at the bottom of the pyramid, there is nonetheless potential there for innovative and determined businesses, through a blend of self-interest and altruism, to contribute to saving themselves and their customers from some of the grim predictions of threats to humankind. It will not be easy; there will be many obstacles to overcome and we may be entering unfamiliar territory: a new kind of less consumption-oriented civilisation, but one where the interdependence of everyone on the planet is the guiding principle, creating a world that is safer for future business activity and fulfilled living.

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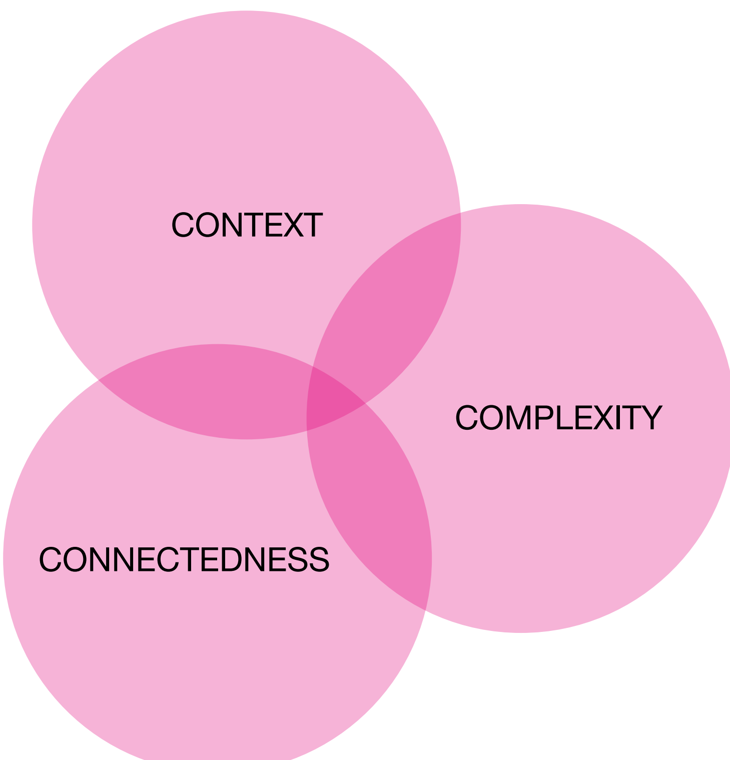
Leadership skills for the 21st century

What skills do you need to lead in the face of today's global challenges? Are you fit to survive in this changing new world? Climate change and other pressing environmental and sustainability issues urgently require transformational change. In this article, Matthew Gitsham and Kai Peters challenge readers with the findings of Ashridge-led research presented to the United Nations in December 2008 which reveal that although 76% of senior executives say that leaders in their organisations need the knowledge and skills to respond, fewer than 8% believe they are currently developing them very effectively.

We are living in challenging times. The 2008-09 financial crisis has created circumstances which are testing our leadership skills as we attempt to navigate through uncertain market conditions. This financial crisis has been over 20 years in the making and illustrates a valuable and extremely important lesson – the longer risk is ignored, the bigger will be the consequences. Although current recession concerns are the most serious for nearly a century, they are dwarfed by those predicted in the Stern Review on the *Economics of Climate Change*, published in the United Kingdom in 2006.[1] This highlights that the expected increase in extreme weather, with the associated and expensive problems of agricultural failure, water scarcity, disease and mass migration, means that global warming is likely to precipitate crises on a scale we have never witnessed. Stern extrapolates the cost to suggest that climate change could swallow up to 20% of the world's GDP.

The shift to a low carbon economy is one of a wide range of issues and trends that business leaders increasingly agree will impact on their companies, according to Ashridge research conducted in the autumn of 2008. Wider concerns relating to sustainable development – finite and increasingly scarce resources (energy, water, food, metals and minerals for example) – also figure prominently. Business leaders have thus clearly understood that severe challenges lie ahead. But do they know what to do about them?

With emerging economies the source of future growth for many organisations, and with President Obama and political leaders around the world putting the transition to a low carbon economy at the heart of their response to the current recession, it is increasingly clear that it is not simply a case of business as usual with a few tweaks here and there. There is now an urgent business imperative for transformational change.



Transformational change requires more than changing to a few low wattage lightbulbs. Making the necessary adaptations to a sustainable economy means putting these issues at the heart of strategic decision-making and integrating them into all the key business systems and processes. It means influencing policy-makers to create new market structures and rules of competition. And it also means reaching the hearts and minds of individuals working right across organisations, changing the nature of the conversations within organisations and equipping people with the knowledge and skills they need to enable them to respond.

What does this mean for you and your role? And what does it mean for leadership development?

To explore these questions, Ashridge worked with Unilever, IBM, Shell, Johnson & Johnson and Microsoft – the founding corporate partners of the European Academy of Business in Society – as well as a number of other leading business schools around the world. The findings, based on extensive interviews and a global survey of CEOs and senior executives, present a stark message:

76% of CEOs and senior executives polled say it is important that leaders in their organisations have the knowledge and skills to respond to sustainability, but fewer than 8% believe these knowledge and skills are currently being developed very effectively.

Three clusters of knowledge and skills: context, complexity and connectedness

Context

The CEOs and senior executives believe that three clusters of knowledge and skills are required in their organisations. The global leader of tomorrow needs to understand the changing business context

– 82% of those polled say senior executives need to understand the business risks and opportunities of environmental and social trends. And they need to know how their sector and other stakeholders (regulators, customers, suppliers, investors, NGOs) are responding. Global warming, for example, has become a strategic issue for organisations: not just because of direct implications for the organisation and its assets and business model from changes to the climate, but more significantly because of the way customers, investors and most importantly regulators and competitors are responding.

As Michael Porter, in the *Harvard Business Review,* noted recently: *"Climate change is now a fact of political life and is playing a growing role in business competition. Greenhouse gas emissions will be increasingly scrutinized, regulated and priced. While individual managers can disagree about how immediate and significant the impacts of climate change will be, companies need to take action now."*[2]

Senior executives also need the skills to respond to this information, as 70% say that global leaders need to be able to integrate social and environmental trends into strategic decision-making. This can mean knowing how to use tools for scenario building and risk management to aid decisions about emissions costs within capital expenditure projects or horizon scanning for consumer trends.

Energy utility **National Grid** has introduced a carbon budgeting process that mirrors its financial budgeting process, with all parts of the business negotiating to agree how much carbon they will emit. Senior leaders in the organisation now need the skills to be able to take into account the shadow price of carbon when making capital expenditure decisions to understand the future financial performance, should carbon pricing legislation be introduced.

FMCG giant **Unilever**, through its in-house Marketing Academy, has introduced the Brand Imprint process to help build the skills of its brand directors to factor opinion leader and consumer attitudes about social and environmental issues into the development of its top brands in order to build customer loyalty, differentiate and capture value. Brand teams seek new opportunities by conducting a 360º scan of the social, economic and environmental impact that their brand has on the world, taking into account consumer attitudes as well as the views of external stakeholders, NGOs and opinion formers, and market forces driving the brand's success. The learning experience revolves around developing skills to identify business-relevant social and environmental issues and factor this information into product and brand development to improve the bottom line. The first four brands to go through the Brand Imprint process were four of Unilever's most successful ones: Lipton Tea, Dove, Lifebuoy and Flora/Becel. Many other brands within Unilever are now undertaking the process as well.

"Leaders need to be able to introduce environmental and social criteria into strategic decision making from the start – not doing this is worse than stupid, it's reckless."
André van Heemstra, Global Board Member and Global Head of Human Resources, Unilever 2000-2006

Complexity

The second cluster of knowledge and skills is around the ability to lead in the face of complexity and ambiguity. The challenges and opportunities these issues and trends present tend to be marked by a lack of certainty and a lack of agreement. Leadership in these circumstances requires a range of discrete skills: 88% of those polled say senior executives need the ability to be flexible and responsive to change; 91% – the ability to find creative, innovative and original ways of solving problems; 90% – the ability to learn from mistakes; and 77% – the ability to balance shorter and longer term considerations.

Connectedness

The final cluster of knowledge and skills is around connectedness – the ability to understand the actors in the wider political landscape and to engage and build effective relationships with new kinds of external partners. For different businesses this can mean regulators, competitors, NGOs or local communities. The mindset with which our current leaders are groomed does not encourage productive engagement with partners outside the organisation. Leaders receive plenty of training in negotiation skills, for example, but on the whole, lack the skills for engaging in effective dialogue and partnership. To survive and thrive, 73% of senior executives say the global leader of tomorrow needs to be able to identify key stakeholders who have an influence on the organisation and 74% say they need to understand how the organisation impacts on these stakeholders, both positively and negatively. 75% say senior executives need to have the ability to engage in effective dialogue and 80% say they need to have the ability to build partnerships with internal and external stakeholders.

Engaging with local communities can be increasingly important for a variety of companies, especially those in the oil, gas and mining sectors, where the expectations of governments, institutions providing project finance, and NGOs, not to mention local communities themselves, are rising. This means moving from a mindset in which local communities are viewed as a nuisance that must be managed, to a strategic partner where constructive relationships are central to value protection and value creation. This means more than financial donations for community projects – it means a real focus on relationships.

The ability to engage and contribute to public policy is another example, particularly important in the context of negotiations over a successor to the Kyoto Protocol and the second phase of the European Emissions Trading scheme. By 2012, the European Union will make decisions on the future distribution of permits that could be worth up to €3 billion for the airline industry[3]: there is clearly a lot at stake. Companies need to work closely with regulators to ensure that the new rules do not have unintended consequences, but work in the best possible way. For many business leaders, this engagement will require enhanced skills.

A need for diverse learning approaches

If these are the kinds of knowledge and skills needed, how can they best be developed? Again, the research sends a clear message. Traditional approaches are not enough: a broad range of learning approaches are required to develop the global leaders of tomorrow. Because the issues are complex, senior executives believe the most effective learning and skills development comes through practical experience, whether the learning is on-the-job, project-based or experiential. These learning experiences can be enhanced by structured reflection through coaching or Appreciative Inquiry. Learning directly from the experience of others is also valued as important – through mentoring, or communities of practice and other formal and informal learning networks.

Individuals need to seek out their own opportunities to learn and refine the skills they need. HR and Learning and Development Directors also have a responsibility to ensure that the organisational learning agenda supports the development of appropriate skills. This process can be supported through leadership development programmes. Unilever, for example, runs a programme on its emerging markets strategy for high potentials. Through project-based learning, teams of executives build their engagement skills at the same time as researching current social and environmental trends and the business implications, by spending time in emerging markets collaborating with NGOs, microfinance organisations and other grassroots groups. The teams develop business proposals to present to the Unilever board and the most successful are selected for implementation.

InterfaceFLOR, the modular flooring and carpet tiles manufacturer headquartered in the USA, has introduced a three-tier education programme. Highly interactive, the programme progressively raises awareness of key environmental and social issues and develops the skills that individuals need for the organisation to be able to fulfil its vision of being environmentally restorative by 2020. Individuals must have participated in certain levels of the programme, and where appropriate passed a graded assessment, to be eligible to be considered for promotion to more senior roles in the organisation.

Together with InterfaceRAISE, the consulting arm of InterfaceFLOR, Ashridge has developed a partnership which brings together Ashridge's expertise in executive education and organisation development consultancy with the vast practical experience of InterfaceFLOR in sustainable development. Through workshops, senior executives and strategic decision-makers are supported to think strategically about the commercial opportunities and challenges presented by sustainable development and to develop a strategic plan to engage their organisation to address them. These plans are then rolled out with further support from the Ashridge InterfaceRAISE partnership.

For the past four years, Ashridge has collaborated with a leading global healthcare, lifestyle and technology company to design and deliver a leadership and strategy programme that engages its high potential managers in exploring new markets and products, and equips them to address the challenges of the future through a combination of residential modules and project-based learning. Projects take place in emerging markets that both address the long term sustainability vision of the company and put participants outside their comfort zone. Participants are challenged to understand and engage with local people in these locations, to understand and engage with the issues they face and the lives they lead, and to innovate to create new business ideas and viable business models to support them. For example, for one project, participants worked with a local community in India, developing relationships with NGOs and running focus groups with village women to source and assess ideas for alternative products and explore ways to provide them to poorer people. After the project, participants deliver their proposal for a business model, then work with the company's senior management to decide on the next steps forward. This experience is leveraged and developed at a personal level during the final, classroom-based module.

On another programme, the Ashridge MBA, a compulsory two week module explores how sustainability issues cut across all the functional silos, and builds critical skills. In 2005, Ashridge launched the world's first continuing professional development programme for sustainability and corporate responsibility directors – the *Integrating Corporate Responsibility* programme. All this work has been supported by our specialist centre for research and thought leadership – the Ashridge Centre for Business and Society – which we established over a decade ago in 1996.

So what are the implications for you?

You are a senior leader in your organisation, or on a career track towards becoming one. Ask yourself these questions: “How important are the skills identified in this research to my role now and as I progress in the future? Do I understand a low carbon economy? Are our products and services sustainable? If not, can I change them? What are my current communications strengths and weaknesses? Can I engage effectively with scientists, regulators, competitors and community groups?”

And if you are an HR or learning professional: “Which of these knowledge and skill sets are important for my organisation, now and in the future? Does the low carbon economy even surface in our learning strategy? What’s stopping us?”

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Further information and the full research report is available from www.ashridge.org.uk/globalleaders

The Global Leader of Tomorrow project is part of the European Academy of Business in Society (EABIS) Corporate Knowledge and Learning Programme and has received financial support from the EABIS Founding Corporate Partners IBM, Johnson and Johnson, Microsoft, Shell and Unilever. The research findings were launched at a global forum on the future of management education convened and addressed by UN Secretary General Ban Ki-Moon at the United Nations in New York in December 2008.

The research was led by Ashridge Business School working together with Case Western Reserve University, the Center for Creative Leadership, China Europe International Business School (CEIBS), IEDC-Bled, IESE, INSEAD, Tecnológico de Monterrey, the University of Cape Town and the University of Waikato.

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Effective executive transitions: managing the entry process into a new leadership role

Ashridge Consulting's Andrew Day draws on consulting work, psychological theory and research with leaders undergoing transitions, to highlight some of the psychological processes that surface during executive transitions, in order to help executives better understand and manage their transition into a new leadership role.

The impact of a change of leader on organisations

All leadership in organisations is temporary; nevertheless a change of leader is a critical event in the life of an organisation. For executives, the transition into and out of a leadership position is one of their most significant career challenges. A change in leadership can be brought about for many reasons, including the existing incumbent's decision to move on, resign or retire, the organisation's termination of their contract, or the result of a re-structuring process. The reason behind the need for a change in leader is likely to have a profound impact on the transition process.

In practice, the success rate of executive transitions is low[1] particularly when they are not planned and especially when they

Managers in a manufacturing company reported feelings of anxiety about the future of their organisation. A collective sense of anxiety existed about whether the organisation would be able to secure the significant investment it required into new production technology to remain competitive. In addition to their anxiety about the investment decision, managers were also anxious about when their CEO, who was in his mid-60s, was planning to leave the organisation. He gave no explicit statements to the organisation about when he intended to retire. In private conversations, he acknowledged retirement was on his mind although it was clear that he was ambivalent about it. This led to a situation where the subject of when he would retire was discussed in private but not public, resulting in a 'wait and see' response and passivity in the organisation. In effect the uncertainty about the CEO's future amplified the levels of anxiety in the organisation about its future. This proved to be a significant distraction from work.

precipitate a crisis. A classic piece of research in the US Navy demonstrated that the performance of teams fell dramatically after a change in leader.

We only need to examine some of the high profile cases of what happened after a successful leader departs, to understand the possible impact of a change in leader on an organisation. Consider for instance, GE after Jack Welsh, Chrysler after Lee Iacocca or ICI after John Harvey-Jones, where the departure of a charismatic leader was associated with a period of, arguably, relative decline in organisation performance.

In times of uncertainty and turbulence, leaders provide a critical role in containing the anxieties and fears of their followers. This requires them to connect and form authentic bonds with their followers[2]. These bonds are obviously broken when there is a change in leader, heightening anxiety levels in the organisation as the containing role of the leader is no longer present. If leaders change frequently then followers soon learn not to invest their energy in forming attachments with their leaders. Employees withdraw, creating an emotional distance and separation from their own leadership. The management of executive transitions is therefore critical to the long term success of organisations.

The research process

The author worked with ten executives from a range of large organisations in different sectors including the automotive, energy, manufacturing, charitable, food and local government sectors. All the participants were engaged in the process of transitioning to a new leadership role, either within the same organisation or into a new one. The work, over a six to eighteen month period, included executive coaching and the facilitation of transition events with the executives' teams. The author had a series of in-depth conversations with each executive at multiple points during their transition. In the case of four of the executives, the author interviewed members of the team they were joining to explore their thoughts, feelings and anxieties about a change of leader. The period of transition varied according to the work and ranged between four months and two years.

This article reflects the significant themes which the author observed across this group of executives and their organisations, as they engaged with the process of transition to a new role.

The psychological dynamics of leadership transitions

In its essence, the process of leadership transition involves the transfer of knowledge, power, responsibility and relationships from one leader to another. A leadership transition rests fundamentally on the conversion of allegiance of followers from one leader to the next[3]. The research demonstrated that both leaders and their followers experience this process to be an emotional disturbance which evokes complex conscious and unconscious emotions and anxieties for them[4]. These are described below:

Loss and grief for the departing leader

Individuals and groups form attachments to leaders in organisations[5]. These attachments serve to contain individuals' anxieties about their work and the pressures of being in an organisation. When most of the executives studied communicated their decision to leave, this triggered shock and anxiety from their followers. These reactions reflected feelings of abandonment and loss[6]. They represented the start of a process of grief through which individuals started to let go of their attachment to their leader and form a new attachment with the incoming leader. When people first hear news that a leader is leaving, many individuals take up a passive 'wait and see' position[7].

When many of the executives started their new role, their new team was still in the process of grieving for the departing leader. This process was at its most intense when the organisation had a strong attachment with their predecessor, as a result of their length of their tenure, their charisma or because they had led the organisation through difficult times. In these cases, feelings of anger, resentment and sadness were often present.

The formation of new attachments

In all cases, the arrival of a new leader stimulated conflicting emotions for followers, including excitement and expectation, feelings of envy and competition with the new leader, hostility and anger towards them, and often idealisation and fear because of their reputation. Many of the new leaders found that their new organisations had high expectations of them and how they would address problems in their organisation. These reactions form part of a psychological process whereby the organisation develops attachments to its new leader. It is a complex process which requires people to let go of the bonds they formed to the previous leader and develop attachments to their successor.

Leaders also enter into a similar process of having to let go of their relationships from their previous role and form attachments with their new team. Many leaders found this to be an intense experience coloured by feelings including doubts, sadness, excitement, relief, fear, anger, frustration and guilt about leaving their previous role. The start of a new role was often therefore a lonely process for many of the executives.

The formation of a new identity

For all of the leaders involved, the process of transition required them to adjust or change their identity. This process itself stirred up complex emotions[8] as individuals had to give up beliefs and practices that have been important to their success and embrace new ways of thinking about themselves. Paradoxically, even transitions with which individuals felt excited and had looked forward to in their lives, such as promotion to a Chief Executive role or retirement, proved to be difficult. Four individuals experienced a short period of depressed mood following an initial period of excitement or exhilaration. They found this reaction difficult to understand because it was unexpected.

Formation of new power relations and structures

Power and influence is connected to leaders in organisations. The leaders of an organisation will typically be at the centre of power relations. They influence both the formation and manifestation of these constellations of power within an organisation. Political dynamics are complex and their pattern will vary between organisations. We can however be relatively certain that a change of leader will change these dynamics, resulting in a change in power relations within an organisation[9]. In many cases, the change of leader resulted in overt or covert struggles for power. This is particularly the case where the new leader has an ideological difference with their predecessor regarding the organisation[10]. This process often started with the announcement of the departure of a leader, as individuals started to prepare for a change in the power structures and relationships in the organisation. Two executives found that their influence was significantly reduced following the announcement of their departure. When arriving in their new organisation, all the executives were confronted with having to understand the existing power relations and structures and understand how they needed to change them and work within them.

> A senior leader in a multinational organisation experienced considerable anxiety after his country manager was asked to leave the organisation during a period of re-structuring. He considered this individual to be an important source of support in the internal politics of the organisation and a source of personal support. His anxiety partly stemmed from his feelings of loss about his departing colleague but also because of his feelings of vulnerability and exposure to the internal power dynamics within the organisation.

Taking up a new leadership role: the central challenges

The key challenges that the participants in the research confronted are described below. They tended to be greater for a leader who is joining a new organisation than those confronting one who is moving within the same organisation. They provide guidance to leaders engaged in transition about where they must focus their attention during the transition process.

Integration into the organisation's culture and political dynamics

Each executive who was entering a new organisation required time to get to grips with its culture. They found they needed to work hard to uncover and understand how people related to and interacted with each other. In all cases, their entry into their new role was marked in some form by ritualised processes and symbolic ceremonies, such as inauguration events. These cultural events helped to facilitate the process of letting go of the outgoing leader and welcoming in their successor.

When taking up a new role, an executive must observe interactions, listen to people, reflect on their own experience and ask questions. Critical questions include:

- What are the unspoken norms and rules in the organisation?
- How does the organisation make decisions?
- What behaviours cause most offence within this culture?
- What are the rituals and customs of the organisation?
- To what extent does the culture support or impede the organisation?

In entering a new organisation, any leader is confronted with a choice about the extent to which they conform to its culture. Individuals who are unable to adapt are unlikely to be successful in the long term and individuals who conform will find it difficult or impossible to bring about change. The executive is therefore required to undertake a careful and conscious balancing act.

In addition to understanding culture, the integration process also required each executive to understand the political dynamics, power relations and agendas of different stakeholders in the organisation. They often became aware that not everyone wanted them to get the position. It is critical that the new leader understands who has influence and power in and outside the organisation. The outgoing leader can often be invaluable in helping the new leader to understand which relationships are critical to success and support the new leader in this process. In the first three months of their new role they need to ensure they meet with key external stakeholders including suppliers, government officials, trade union representatives, investors, analysts etc. In these meetings, the new leader needs to demonstrate their presence and confidence to the extent they develop credibility and respect.

A senior executive joined a global automotive manufacturer from one of its competitors. The organisation had a very strong culture and a tendency to reject external hires into leadership positions. The new leader was keen to make an impression and chose to introduce an employee suggestion scheme in his organisation. He had introduced a similar scheme in his previous organisation with some success. He had failed however to understand the history of employee involvement in the organisation and the doubts that many powerful individuals had about the process. As a result his changes failed dramatically, thereby undermining his credibility in the organisation. This reflected his lack of understanding of the culture of the organisation but also his failure to recognise the envy that his entry to the organisation had evoked with senior leaders.

Assessment of the organisation and development of strategy

Each executive was faced with a paradoxical challenge: how to honour the past whilst creating a new future. Each of them had to undertake an assessment of the organisation and its performance. They had to make decisions about how best to undertake this process, including who to involve, how quickly to make a judgement, whether to use consultants and the extent to which radical or incremental change was required.

Whatever their approach, they were challenged with how to gain the support and commitment of the organisation for their ideas and plans. This presented a central dilemma of "How can I bring my own ideas without alienating key stakeholders or myself?". Those who managed this dilemma sensitively attended to relationships and maintained an ongoing dialogue about the strategic direction of the organisation with key stakeholders.

Establishing authority

An executive transition involves a symbolic and real transfer of power and authority from the outgoing leader to the new leader. The extent to which the incoming leader was quickly accepted by their new team was often dependent on the behaviour of their predecessor. Where it is possible, the new leader and the incoming leader need to negotiate how this transition will take place with the support of the Board. When the transition of authority is done smoothly, then challenges to the new leader's authority and power are significantly reduced. In one case, the boundaries of the transition process were blurred with an overlap between the outgoing leader and the incoming leader. This resulted in a problematic transition whereby the new leader was not able to take up their authority and the existing leader became a 'lame duck'.

Many of the executives in the research had to actively address unresolved feelings about the departure of their predecessor. Reactions included resentment from individuals who had hoped to get their position, political camps who remained loyal to the outgoing leader and their agenda, and doubts about the new leader's credibility and competence for the role. It is always helpful for the new leader to understand accurately the circumstances of the departure of their predecessor and any issues that emerged during their selection.

A manager was appointed to a senior post ahead of two of his peers. They both now reported into him. The new leader felt he needed to prove himself to these managers and as a result implemented a number of significant changes to the organisation without fully involving them. Both of the managers resisted the changes and reacted with hostility to their new boss. Over the next twelve months, the underlying feelings between the three managers remained 'un-discussed'. Their working relationship had become tense and unproductive and, not surprisingly, had started to impact the morale of the organisation and its performance. The situation changed only after the leader confronted his two direct reports and explored with them their reactions and feelings about his appointment. It was only after they were able to work through their feelings about his appointment that he was able to take up his authority in his new role.

Establishment of trust

In the early stages of the transition process, direct reports and lower levels of the organisation often speculated about whether the new leader had a hidden agenda. It is important for incoming leaders to recognise that people hold fears, which may not be grounded in any reality, about their intentions. In order to build trust, leaders need to acknowledge that these fears may be present and address them through clear and direct communication about their objectives and intentions. When leaders failed to develop trust it was often because they concealed either their emotions or opinions.

Agreeing expectations with those above and below

Many of the executives found that those above and below them had unrealistic or conflicting expectations about their role or what they could achieve. Those who were more successful in managing these expectations negotiated – with their own management and their team – realistic long term goals and objectives in the early stages of the transition process. This tended to be an ongoing process based around leaders' assessment of the organisation and development of relationships with key stakeholders. Finding and delivering one or two 'quick wins' was often a helpful process through which the new executive was able to build credibility and trust.

Development of the executive team

A change of leader will always disturb the internal dynamics of the executive team. Each leader in the research was required to invest time in developing his team. Both the team and the leader need to acknowledge that they must jointly determine how they will work together. This requires the leader to understand the team's norms, its strengths and struggles. The team equally needs to understand its leader's expectations, leadership style and preferences.

Support for the transition process?

Executives encounter transitions throughout their career and through experience most learn to how to negotiate them effectively. Indeed it is unlikely that an individual would be able to succeed in getting to the top of an organisation if they did not possess some of the key skills. The central capacity that seems to determine success in the transition process is an individual's ability to reflect on their interactions with others and sensitively respond to others' emotional reactions and needs.

Nevertheless, executives do benefit from support with important transitions in their career whether this involves them leaving a role or entering a new role. An internal or external consultant can provide support either through executive coaching or by facilitating a series of transition events for the outgoing and incoming leader.

Transitions are critical events in the lives of executives and their organisations. They evoke strong conflicting emotions for both the individuals involved and their organisations. These need to be worked through in order for followers to form an emotional attachment to a new leader. Avoiding or ignoring this process is simply not an option if the transition process is going to be a success. If leaders and their teams engage with the process of transition then there can be opportunities for development and change for both individuals and organisations.

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The wake-up call for sleepy managers

Vicki Culpin and Angela Whelan share the findings of research which demonstrates that managers are experiencing poor quantity and quality of sleep, and encourages them and their organisations to be aware of the – sometimes disastrous – consequences of 'sleepiness'.

What do events such as the Chernobyl nuclear explosion, the Exxon Valdez oil spill and the Challenger space shuttle disaster have in common? All three catastrophes were the result of controllable but unexpected and unusual malfunctions: it was human error – in the failure to notice and act upon the malfunctions – that led to disaster. Individuals operating within these three environments embarked on inappropriate courses of action and maintained these, despite clear indications (including warning systems) that their original assessment of the situation was wrong. Human error can be a result of a wide range of factors; some related to the individual, some situational and/or environmental and others a combination of the two. For Chernobyl, Exxon Valdez, Challenger and a range of other disasters including Three Mile Island, the error was a direct consequence of sleepiness.

How 'sleepy' is 'sleepy' and what impact does this have on behaviour for a typical manager? Whilst sleep deprivation may be thought of in the domain of army training or as a method of torture, it takes relatively little sleep loss to lead to a range of cognitive and behavioural changes that will directly impinge on the ability of an individual to effectively carry out their role. A reduction in sleep by only 1½ hours per night for one night alone can result in a decrease in daytime alertness by 32%. As a leader, are you creating a work environment that encourages long hours based on the assumption that long hours creates greater productivity? If a manager has a team of three members who are working with only that minor level of sleep deprivation, then the resultant performance decrement is equivalent to one full-time individual. In addition, 17 hours of sustained wakefulness (for example a long day at work) has been shown to result in changes in some behaviours equivalent to drinking two glasses of wine. If that wakefulness becomes 24 hours (for example a long flight) then the individual is performing with the equivalent of having drunk four glasses of wine (blood alcohol level of 0.1%)[1]; with potential changes in speech, motor functioning, levels of aggression and impulsiveness, memory, decision-making and problem-solving. It is little wonder that the latest figures suggest that one in five car accidents is a direct result of sleepy drivers[2].

Not all behaviour is affected by poor sleep. Logical, deductive and critical reasoning, the types of skills and abilities measured in a traditional IQ test, are unimpaired, even after long periods of sleeplessness[3]. However, leadership skills and competencies, known as 'executive functions' are highly susceptible to even relatively minor sleep loss[4], and include:

- Comprehending and coping with a rapidly changing environment
- Multi-tasking
- Producing innovative solutions to problems
- Assessing risk and anticipating the range of consequences of an action
- Controlling inhibited behaviour
- Communication skills
- Updating the big picture
- Decision-making involving complex and creative ideas.

The key Emotional Intelligence (EI) competencies including emotional self-awareness, accurate self-assessment, self-confidence, self-control, empathy and influencing have also been shown to be adversely affected by fatigue. However, individuals with higher EI are 'protected' from the adverse effects of sleep loss on these competencies when compared with individuals who have scored lower on the EI scales[5]. Unfortunately, while an individual may excel on accurate self-assessment, it is likely that their ability to appreciate the effect of sleep loss on subsequent performance diminshes after only one night of poor sleep. Using a self-check measure of 'Am I sleepy? Do I feel OK?' may not be enough to understand the impact of poor sleep on behaviour. For example, in a study of 1,000 individuals who reported no daytime drowsiness, 34% were shown to be 'dangerously' sleepy.

Whilst all of the research cited above is important for managers, the studies have not specifically focused on managerial populations. Researchers at Ashridge, therefore, undertook a study to understand the sleeping patterns of a sample of 339 managers. As the ***impact*** of poor sleep on 'executive functioning' is so pertinent to the managerial population, the specific aim of the research was to examine whether individuals working within the business sector were ***self-reporting*** poor sleep; poor enough to result in negative behavioural and cognitive changes. Individuals completed a questionnaire that examined self-reported quality and quantity of sleep along with two standardised sleep measures (the Epworth Sleep Scale and the Stanford Sleepiness Scale) and a series of health-related questions. Key findings from the study are summarised in Figures 1 and 2, *Sleepy statistics* and *Sleepy behaviour*.

On average, the sample of managers reported to be sleeping for fewer than seven hours a night, slightly lower than the average for the general population[6]. Perhaps of greater concern is the fact that the amount of reported sleep per night decreased as managerial level (and thus the complexity and impact of decision-making, problem-solving etc) increased. The health consequences of this length of sleep (under seven hours) are well documented and range from the serious concern of increased likelihood of hardening of the arteries[7] to the mundane common cold (where individuals who slept for fewer than seven hours a night were three times more likely to catch a cold than those who slept for eight hours or more)[8]. In addition, the risk of developing late-onset diabetes and coronary heart disease has shown to increase in individuals who sleep for between 6½ hours and 7½ hours compared with those individuals sleeping for between 7½ hours and 8½ hours[9,10].

Previous research has consistently demonstrated that it is both the quality and the quantity of sleep that impacts upon cognition and behaviour. For example, a study[11] found sleep quality to impact upon absenteeism, levels of work performance, personal relationships and physical health amongst white collar workers. Horne[12] also notes that a good night's sleep is one that is uninterrupted, with few awakenings and should leave us feeling refreshed and alert during the day. Therefore, it is simply not just a matter of how much sleep at night an individual achieves, but also the quality of that sleep. The results of the research at Ashridge indicate that managers not only have a restricted quantity of sleep (fewer than seven hours) but also suffer from poor quality, with 80% of the sample reporting waking up at least once, and 30% feeling 'bad' in the morning. As a manager, what impact may this have on the behaviour within the organisation? As Doi *et al* note[13], comprehensive countermeasures against poor sleep quality need to be considered not just at an individual level but also at the level of the organisation.

Figure 1.
Sleepy statistics

Managers spend, on average, fewer than seven hours asleep at night and this amount decreases as job seniority increases

Over 80% of Individuals wake up at least once during the night taking approximately 15 minutes to fall back to sleep

The length of time taken to fall back to sleep once awake increases with job seniority – CEOs take an average of 30 minutes to fall asleep after each time they wake

50% of the sample felt tense when trying to fall asleep and 30% report that they feel 'bad' when they wake in the morning

72% of managers noted that they found it difficult to concentrate on tasks because of lack of sleep

Figure 2.
Sleepy behaviour

The most commonly reported effects of poor sleep for the sample of managers were (in order)

- Fatigue
- Attention difficulties
- Headaches
- Memory problems

When managers are tired the most frequently occurring symptoms are (in order)

- Concentration problems
- Mood changes

Figure 3.
Sleep hygiene

- Maintain a fixed bedtime and wakening time
- Avoid alcohol and caffeine 4-6 hours before bedtime
- Avoid heavy, spicy or sugary foods 4-6 hours before bedtime
- Exercise regularly but not directly before bed
- Keep the room well ventilated and ensure an appropriate temperature
- Block out all distracting noise and eliminate as much light as possible
- Reserve the bed for sleep
- Try a light snack before bed (e.g. warm milk and foods high in the amino acid tryptophan, such as bananas)

Figure 4.
Sleepy facts

The official record for the longest period without sleep is held by Randy Gardner who spent 264 hours without sleep in 1964 although a recent (but not substantiated) attempt by a student at Liverpool John Moores University notes a deprivation lasting 502 hours!

Any exercise may improve the quality of sleep, but the most effective way is to carry out exercise that heats the head; hot heads are considered to indicate a tired brain, therefore leading to greater deep sleep

The most effective way to power nap is to fall asleep with a set of keys in the hand – when the body starts to drift into deep sleep, which should be avoided in a power nap, the keys will fall to the floor, waking the individual

While the average manager may not feel that the consequence of a poor workplace decision will lead to a calamity of the proportions relating to Chernobyl or Challenger, research at Ashridge has shown that individuals in positions of responsibility may be operating whilst suffering both poor quality and quantity of sleep. An official report[14] into the Challenger disaster noted that 'working excessive hours, while admirable, raises serious questions when it jeopardises job performance, particularly when critical management decisions are at stake'. It is now, during these turbulent times, that 'executive functioning' is paramount. Individuals must work with uncertainty, consider the bigger picture and anticipate risk in a way that is unprecedented. It is also a time when increased stress and job pressures may lead to a reduction in sleep quality and quantity; a sacrifice that individuals cannot afford to make.

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PERSPECTIVES

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Delivering values – foundations for a new era?

Roger Delves

In this article Roger suggests that current financial and economic crises have resulted from rewarding people who deliver profit for organisations more highly than those who deliver profits and values. What does this mean for people faced with the challenge of leading organisations into a new era?

As the last breath gurgles from the great experiment of using markets to solve societal problems like unaffordable housing, are people ready to say goodbye to an age we've known since the eighties or even earlier? Now it's clear that the boom, boom, boom we heard was neither the signature tune of the market nor the crash of surf on a sun-drenched beach, but rather that of credit crunch guns holing corporations below the water line, is it time to examine why things didn't quite work out as planned?

Of course, it was never meant to end like this. In the old-fashioned, conservative system, banks took in deposits from the cautious and handed out loans to the worthy. But in the new millennium, the heady combination of soaring property prices and cheap money – America slashed interest rates from 6.5% to 1% in the space of two years post-Enron and 9/11 – encouraged the shadow banking system of investment banks, hedge funds and private equity groups to ply an ever more complex trade. These casino bankers created huge trades in derivatives – by 2008 financial institutions on both sides of the Atlantic were buying and selling countless of these highly structured securities, by then made up mostly of heavily-disguised housing loans to sub-prime customers, and valued at $58 trillion. Caught up in the fallout when property prices tanked were so-called "respectable institutions" who found themselves carrying billions of dollars of useless paper – names that in the UK included B&B, Northern Rock, HBOS and RBS. If you weren't Too Big to Fail, then fail you did. With money suddenly too tight to mention, nobody could trust anyone any more.

Of course, it was never meant to end at all. Nobody seriously thought that the property boom, which underpinned it all, would ever end. But when the music stopped, so did the flow of credit. From banks to banks. From banks to businesses. From banks to you and me.

Suddenly in Britain there was a perfect storm. House prices plummeted, lucrative Stamp Duty income to the Government and credit to everyone else just dried up. Sterling weakened; imported goods became more expensive. To manage costs, businesses began to make redundancies, costing the Government in increased benefits and reduced tax revenues, just when Gordon needed every penny to provide fiscal stimulus to the economy. Even the sharply dropping oil prices, which worked for consumers, caused North Sea oil revenues to fall, further worsening the Government's position. Interest rates dropped to historically low levels, as to a lesser extent did fuel and energy costs; VAT dropped, but the extra money thus generated was often not even enough to make the necessary repayments on maxed-out credit cards. Retail outlets slashed prices, share prices plummeted, with global shares losing 43% of their total value between March and November 2008. In one October week alone, £2.7 trillion was wiped off the global value of shares. Household names went to the wall. Households went to the wall.

Post-war ethics

So we have a sense of what happened. But why did it happen? It can be argued that this lesson in interconnectivity, where British savers have to be rescued when Icelandic banks collapse, while Texan homeowners' inability to pay their mortgages brings a Japanese life insurer to the brink of bankruptcy, was not only predictable but overdue. Perhaps it began with the post-war rebuilding of the forties and fifties. Under the guidance of John Maynard Keynes in 1944 at Bretton Woods, the great economists of the time agreed on a set of rules for the international exchange-rate system, to end the instability of the pre-war years. The IMF and later the World Bank emerged. At the same time ambitious plans for the physical rebuilding of Europe were being formulated. So, the financial infrastructure and the built environment were being cared for – but did anyone stop to examine the effect of the war on ethics?

Ethics are our standards of conduct that guide decisions and actions, defining what we think is right, good, fair and just. Ethical behaviour is concerned with 'ought' and 'ought not' and implies that there are standards which extend beyond what is required by law or is commercially or personally profitable. Ethics capture what we consider to be our core purpose and values as individuals or companies. Ethics dictate what we choose to do and how we choose to behave as we set out to do it. But ethics are a social construct. Remove the construct within which ethics exist and they too cease to be. By the start of the post-war era, whole cultures had been shattered, millions displaced, cherished beliefs withered: senses of purpose and values needed to be rebuilt with as much care and attention as financial systems and built environments.

No such care was given. Formal faith, the typical early provider or supporter of values, declined continuously post-1950; demands for greater personal freedoms and more individual choice also undermined the traditional values set which had existed pre-1940; greater mobility, social and physical, also brought new cultures and new approaches closer to home. Entirely new approaches such as communism tended to cause the general view of capitalism to become synonymous with commercialism. One outcome of all of this change was that baby boomers were brought up in a far more ambivalent ideological time than their parents. Adopting values and living up to them, or rejecting one set of values in order to examine and embrace another were not rewarded activities. Values remained, but far from centre stage.

Ethics or end results?

In organisational life, high-end, other-directed values were given even more scant attention. They became little more than preferred behaviours which were taken up or put down on a situational whim. Instead of transcending objective or situation, often values became entirely secondary to them. The organisation's core purpose (which should capture the fundamental reason for being, creating a rationale for constant change and progress as it strives better to fulfil that purpose) instead tended to be shorthanded into a soundbite like "provide shareholder value" and then be left forgotten until the next AGM. There arose a ready willingness to abandon personal or organisational principles and values; this, rather than a lack of fortitude or courage, is found at the root of many ethical violations – ethics compete not with ignorance but with personal interest. In short, business generally ceased to evaluate the importance and worth of personal or corporate ethics and instead focused simply on end results. In a distorted adoption of Utilitarianism, decision makers were content merely to say that the ends justified the means, with no regard for the mutually altruistic outturns required by true Utilitarianism: act in such a way as to produce the greatest good for the greatest number.

This drift away from any real sense of ethics among emerging leaders developed in parallel with the increasing use of light touch legislation on financial markets. Eventually, the most valued people in our society became those who could make money from money. The apotheosis of this trend was seen in America last year, where five such people earned for themselves in excess of $1 billion.

The immediate crisis and its aftermath which we observe today were created not by something unforeseen but by something utterly predictable: the inability of sub-prime mortgage holders to maintain payments. Yet financiers were unwilling to accept this because in a broadly ethics-free business world, the vast amounts of corporate and especially personal profits available to them by selling and reselling these derivatives were simply too great a temptation to resist. Temptation – a chance to win at any cost, a chance to earn fortunes for oneself, and incidentally one's organisation – is something to which the ethics of the modern business practitioner too often has no answer. When the rock of ethics meets the hard place of temptation, no inner voice could be heard over the sound of personal and corporate wealth generation.

After the party

Now that the party's over, is it time to ask if a sounder ethical approach is needed from organisations and their leaders in the future? Would organisations believe they will be more stable if they have a clearly identified core purpose and an equally unequivocal set of values, the keeping to which is a vital element of individual success? Or will the old order re-impose itself and will companies continue to reward individuals who deliver results but don't live the values, just as readily as they reward those who deliver while living the values? Current evidence suggests that justification for inappropriate behaviour – when that behaviour is part of a personal or organisational quest for success – comes too easily to the majority of organisations and leaders. Honesty and integrity, it transpires, while generally espoused, are less often the consistently delivered values of today's organisations and leaders. Indeed, too much of the evidence from the boardroom would suggest that corporate and personal ethics have for too long been ignored or abused by both corporations and individuals.

But what part have individuals – let alone investors, regulators, governments, business schools and other opinion-formers – played in the implosion of the world's financial systems? Do ethics have to take a back seat to profits and meeting targets? Should there not be consequences for failing to act ethically, and do not ill-conceived reward systems only encourage unethical behaviour? Is the only role for ethics to tend the wounded, and if so have we not built an unsustainable edifice which as it fails will do so with catastrophic consequences?

Management and team leaders can play a critical role in shaping ethical values by being models of ethical behaviour and showing that ethics are important. Leaders shape and reinforce the ethical (or unethical) climate by what they pay attention to, how they react to crises, how they behave, allocate rewards, recruit, dismiss, reach decisions. Perhaps it is time for all these stakeholders to invest more in developing responsible individual and corporate codes of ethics. It won't be easy, but the alternative, as we are observing at first hand, may be harder yet. As we face into a fundamentally changed business landscape, helping leaders and organisations to develop and live by ethics which are less tainted and more sustainable may be the most important hand that business schools can offer.

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