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May - June 2024

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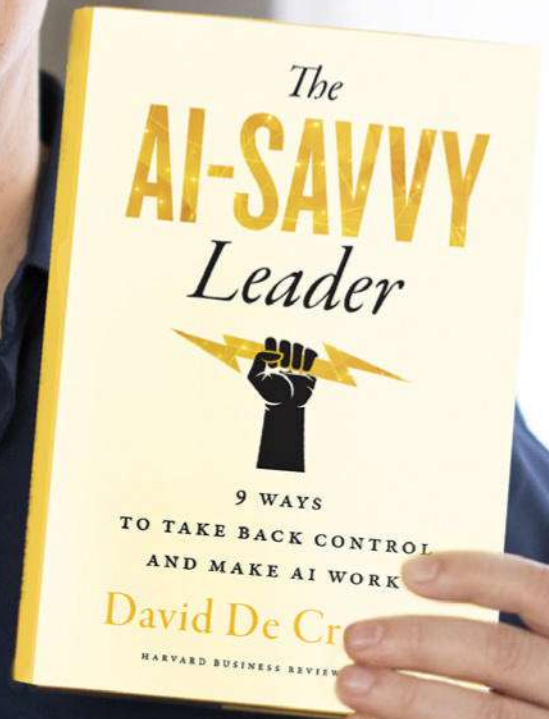
How Top Performing Firms Needed to Re-Organise Seven Times for Digital

How to Put Curiosity to Work in Your Organisation

How AI Liberates the Transition to a Skill-Based Organisation

UNLOCKING THE POWER OF AI LEADERSHIP:

A DIALOGUE WITH PROFESSOR DAVID DE CREMER



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David De Cremer gets to the heart of leadership in the era of rapid AI evolution. Discussing his upcoming book on the topic, he stresses the role of business leaders in integrating AI so as to ensure that it becomes a value creator rather than a mere technological tool.

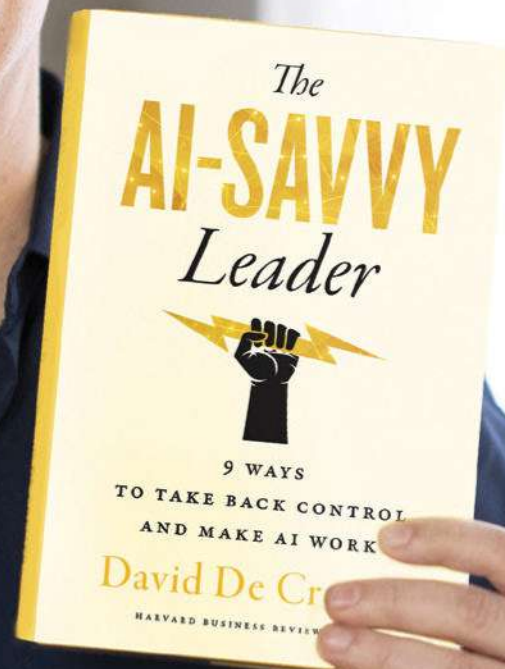


PHOTO BY: JESS ZHANG

UNLOCKING THE POWER OF AI LEADERSHIP:

A Dialogue with Professor David De Cremer

Q It's an honour to have you with us again, Professor! We hear congratulations are in order for your upcoming book launch. Can we start with a few words on what inspired you to write a book all about AI leadership?

A Thank you for asking. Yes, on 18 June 2024, my new book *The AI-savvy leader: 9 ways to take back control and make AI work*, published by Harvard Business Review Press, will be available. And there is an important reason why I wanted to write this book. As we all know, AI is all around. In fact, AI has become so mainstream that the biggest risk for organisations today is *not* using it. But, despite this sense of urgency, I do notice that business leaders are not actively involved in adopting AI and turning the technology into a real value creator for the company and their stakeholders. In a similar vein, participants in my executive leadership classes say that, because they're not tech experts, they are afraid of becoming redundant. These observations led me to conclude that, in the business world, a trend has emerged where they have started valuing AI's computational prowess over human understanding. They're letting it *lead*. That is, business leaders launch AI adoption projects, but they let technologists take the lead because they don't know much about this thing that they're being told is the future value creator.

However, what is striking in this story is that, in delegating the company's AI journey to AI

experts because of a belief that I have called the "tech-driving-tech" strategy, something is clearly amiss. Indeed, despite AI's being portrayed as the holy grail for business, at the same time AI adoption efforts are failing at alarming rates. So many companies I spoke with and have worked with are sinking significant money into AI, but they're failing to extract value commensurate with the investment. The reason that I see is that prizing

a technical mindset above all else for the rollout of AI adoption and implementation programmes means that companies hand off the entire process to tech experts, with disastrous results as the human element is ignored. In my view, this approach is a mistake. I've written this new book to correct it. I hope to reverse the trends I see in the companies I've worked with, the data I've reviewed, and the leaders I've spoken with. I want to bring leaders back into the AI conversation and, in doing so, I hope to save

many organisations a failed AI adoption project or two by reminding them that leadership skills are absolutely essential when AI is deployed.

I want to bring leaders back into the AI conversation and, in doing so, I hope to save many organisations a failed AI adoption project or two by reminding them that leadership skills are absolutely essential when AI is deployed.

Q Your research often focuses on behavioural economics and human decision-making. How did these insights inform your perspective on the interaction between human leaders and AI systems within organisations?

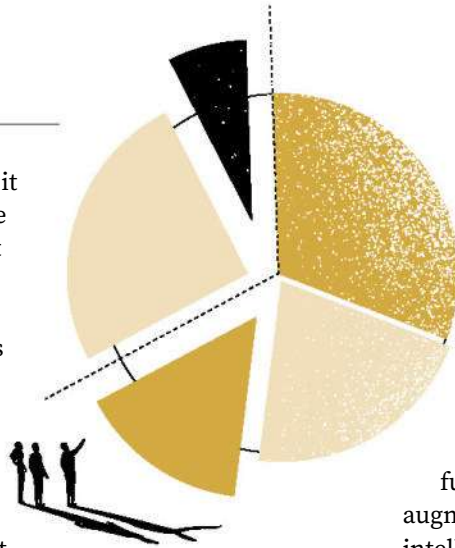
A What is important to know is that the book is not about the technology itself. Of course,

I do dive into what AI is and how it works, but the focus is on how we will work with it and how to use it to create value for our companies. This is a behavioural focus and one that is needed if we want to address the question of whether the introduction of AI means that we must rewrite the rules of leadership and what leadership in the AI era will look like.

One thing people often forget is that AI, even today at the height of large language model (LLM) applications, is still a tool. So, the question will become how you as a business leader can use that

tool to create impact on your company and stakeholders. And there are two perspectives that are dominant today. The first perspective zooms in on AI as a means to enhance efficiency in everything we do, so productivity will go up. This perspective is obviously one that fits perfectly with the business world, as the focus on increased efficiency

and productivity aligns well with our motivation to maximise profits. But, the consequence of this perspective, as we're starting to see, is that we create work cultures where humans feel pressured to align with how machines make decisions. We invest significantly in AI deployment, so companies expect their employees and customers to interact with AI in ways that correspond with how intelligent machines work and act. Such an approach lacks any respect for the human condition and will ultimately work against you. With this strategy, people work around the technology, results don't materialise, turnover increases, innovation declines, and your reputation in the market suffers to the extent that good human talent wants nothing to do with your company.



AI is not about making employees less human, but instead more human. From that perspective, my expertise in behavioural economics and the psychology of decision-making is extremely relevant to derive insights from thinking about how we can shape the adoption of AI so that it respects the human condition.

So, if adoption of AI is primarily AI-centred, where the machine comes first and humans second, we see that organisations ultimately will lose their workforce and be left with AI only. And this will not be the way that companies will be able to create business value. The way to create that value is if humans and AI work together. The future is not only automation, but especially augmentation, where AI is in service of human intelligence. To achieve this kind of work situation, we need a behavioural, human-centred approach where AI is developed and employed in ways that aligns with how humans work,

think, and decide. With the computational power of AI, human intelligence can then be elevated and, in doing so, we make our organisations more efficient, but at the same time also more human than before. So, AI is not about making employees less human, but instead more human. From that perspective, my expertise in behavioural economics and the psychology of

decision-making is extremely relevant to derive insights from thinking about how we can shape the adoption of AI so that it respects the human condition.

Q In your book, there's a heavy emphasis on leaders "retaking control" of how AI is deployed. Can you discuss the balance between empowering AI technologies and maintaining human oversight and decision-making authority?

A As I mentioned earlier, with AI being so present in our lives and becoming cheaper all the time to apply, a sense of urgency exists to embrace AI in all your business practices. In fact, the adoption and use of AI is going so fast

that business leaders can't keep up. In addition, as most business leaders do not understand AI very well, they start delegating the management of the AI adoption process to the tech experts. A belief emerges that AI's computational prowess should be valued over human intelligence and abilities. Business leaders are thus inclined to reason that when it comes down to making AI work for the company, it should be the ones who understand technology who lead the transformation process. However, this is where it goes wrong.

It's a simple fact that business leaders cannot delegate the responsibility of the AI adoption strategy! If they do, they lose control over the organisation, and this will not serve the business itself nor any of the stakeholders. Indeed, if a technology-only mindset drives the AI adoption strategy, then the transformation process is seen as only a technological endeavour and this perspective is way too narrow to create any business value. Think about it

– organisations exist because they have a certain purpose, and along with that purpose come business goals that one wants to achieve. To evaluate what to do to achieve those goals, the questions that need to be asked will in the first instance have to be business questions. For example, what exactly do we want to achieve in comparison to our competitors, what challenges is the industry facing that are relevant to my company, and what is it exactly that we want our customers to expect from

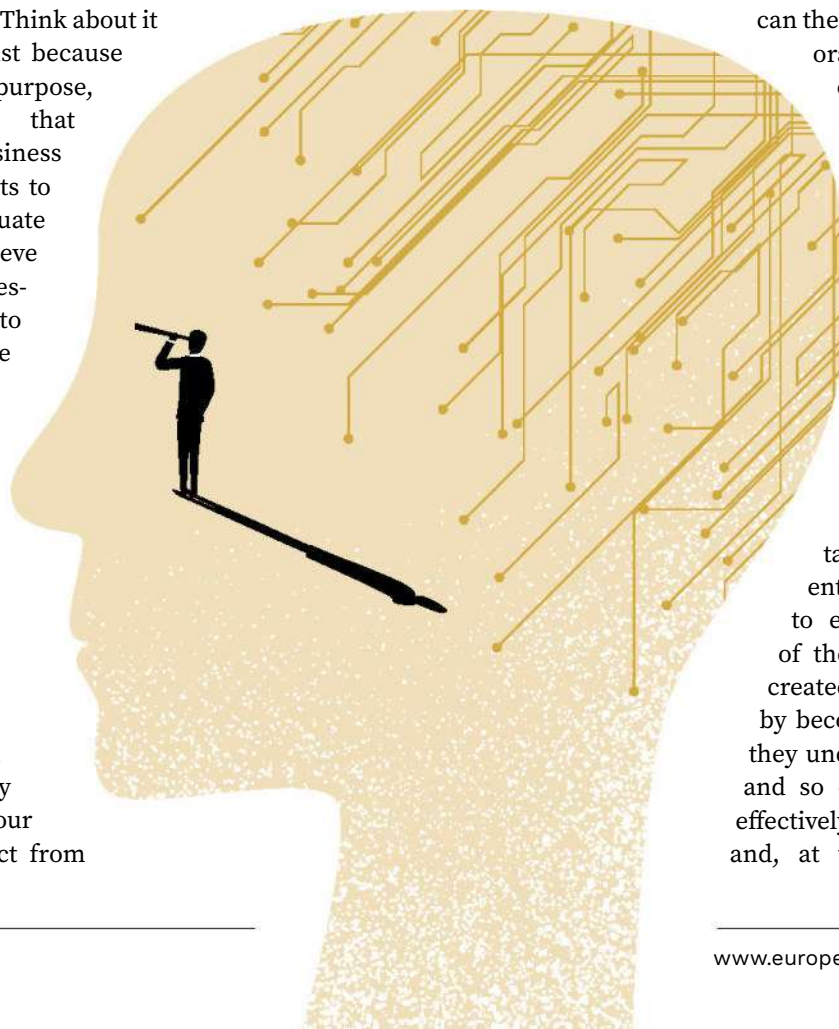
us? In the second instance, the questions will be technological ones, where we assess where and how AI can help us to address these questions effectively and achieve our business goals.

However, if we let tech experts lead the transformation of our company to become an AI-driven one, we are reversing the order of these questions. For example, tech experts, who are not business experts, will do their job and analyse the data at hand and inform business leaders accordingly. But, as the leaders are not tech experts, how can they know whether their recommendations the right ones for the company to act upon? Did they analyse the right kind of data to inform the company's business strategy? We can only know this for sure if we start by asking the business questions that we want to see answered and then see whether we have the right kind of data available to answer these questions. In addition, by asking the right

kind of business questions first, leaders can then also more easily collaborate

with tech experts on deciding whether AI solutions should be used and, if so, in which stage of the business process. After all, today, we're faced with many AI solutions that are hyped and are not necessarily needed for every business decision.

It is thus important that business leaders take back control of the entire AI adoption process to ensure that, at the end of the day, business value is created. And they can do so by becoming more AI-savvy, so they understand the basics of AI and so can communicate more effectively with their tech experts and, at the same time, decide



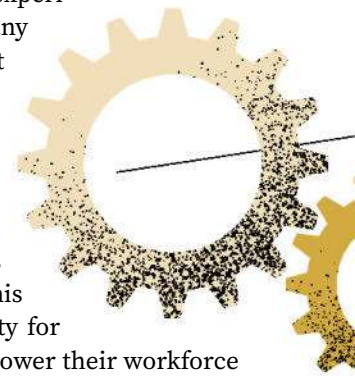
whether the use of AI makes sense in light of their business goals. If AI makes sense, then the tech experts will take care of the implementation and execution. But those tech experts need guidance first and that's the responsibility that business leaders must take up in the AI era. In a similar vein, it makes sense that business leaders, in assessing the value of AI from a business perspective, are also responsible for using AI in ethically correct ways. They need to create a sense of awareness in the company that, while the use of AI should enhance the company's impact, it should co-exist with a culture of integrity. Business leaders can do so by installing expectations that the technology needs to be always governed. This means that the company stays updated about the AI regulations in place and creates a work culture where thinking about ethical dilemmas in the use of AI is a given and dictates corrective actions if needed.

Q Why do you think leaders have been hesitant to engage directly with AI strategy and decision-making for so long?

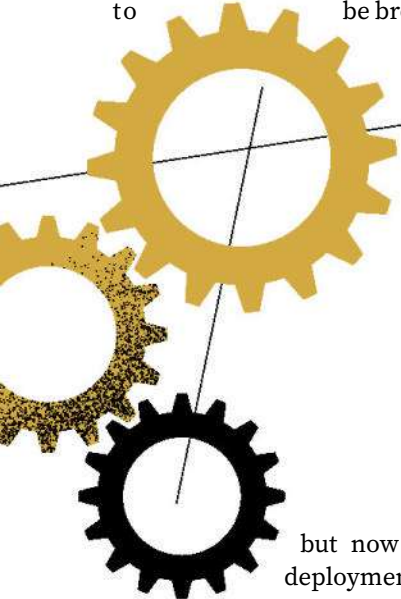
A Today, the technology is growing and changing very rapidly. At the same time, the fear of missing out on the use of AI is so high that the deployment of AI in companies is accelerating. This rapid pace puts leaders in the awkward position of learning to adapt, while at the same time learning what it is they're adapting to. And this situation discourages many business leaders. It makes them less confident about what they think their role should be when

adopting AI and, as a result, they become less involved in anything in which AI plays a role. And at the level of our executives, I see this lack of participation also translated, for example, into CEOs discouraging their teams from using AI. They don't want their employees to use AI because they don't understand it. So, in a way, many business leaders are afraid of (and intimidated by) AI and their own fear leads them to avoid any experimentation with this intelligent technology. But one can only truly understand the value that AI can bring to one's organisation if one allows that kind of experimentation. As a result, many companies so far have not learned enough about the real value that AI can create for them. And it's the lack of understanding by the company leadership that usually has been the cause behind this situation. So, if the priority for business leaders is to empower their workforce to leverage their capabilities for a competitive organisational advantage, then their first leadership task is to close the gap between their understanding of AI and the growing use of it.

Q Your book outlines nine actions that leaders should take to successfully transition to a more AI-centric future. Could you highlight a few of these actions and explain their significance in driving organisational growth?



A The basic premise of my book is that business leaders need to participate in the AI journey of their companies more actively. Out of fear that they are not tech experts, which is believed to be the only thing needed to drive AI adoption and implementation, business leaders are not part of that journey, which means that leadership practices are absent in the entire AI-driven transformation process of the company. And, because of that, most of these projects ultimately fail. Therefore, leadership needs to be brought back and taught,



Out of fear that they are not tech experts, which is believed to be the only thing needed to drive AI adoption and implementation, business leaders are not part of that journey, which means that leadership practices are absent in the entire AI-driven transformation process of the company.

but now in the context of AI deployment. To do so, in my book, I zoom in on nine leadership practices needed to ensure that the adoption of AI will be successful.

The first practice is that leaders need to get to know AI and mobilise their *learning* to be a business leader who has the right narrative and approach to make AI adoption succeed. The second practice is that leaders need to lean into their *purpose* to make sure they are asking the right kind of questions of AI, not just being led by what's technologically possible. The third practice is that leaders need to work hard to foster an *inclusive* culture for human-AI collaborations, where employees are not left out or left behind. The fourth practice is that leaders need to focus on clear *communication* at all levels in their organisation to explain corporate intentions and foster AI adoption, while at the same

time receiving feedback and suggestions on how to improve the use of AI. The fifth practice is that leaders need to develop a clear *vision* that bridges their organisation today with its AI-enabled future to inspire and motivate their workforce to experiment and work with AI. The sixth practice is that leaders need to adopt a *balanced* approach to AI that keeps all stakeholders in mind and leads to an organisational culture where AI governance and ethics moves centre-stage. The seventh practice is that leaders need to use an *empathetic*, human-centred approach that recognises and accommodates the impact of new AI systems on their workforce, so people do not feel like a number, but as essential collaborators to make AI work for the company. The eighth practice is that leaders must consider their *mission* as critical to their company's AI journey. The long-term future of their business still needs human creativity. Invest in AI to augment, not to automate, jobs. The ninth and final practice concerns the need for leaders to hone their *emotional intelligence*. Leaders need to accept that soft skills are the new hard skills and practise them!

Q What are some common misconceptions or pitfalls that leaders should be wary of when implementing AI solutions and how would you suggest they avoid these traps?

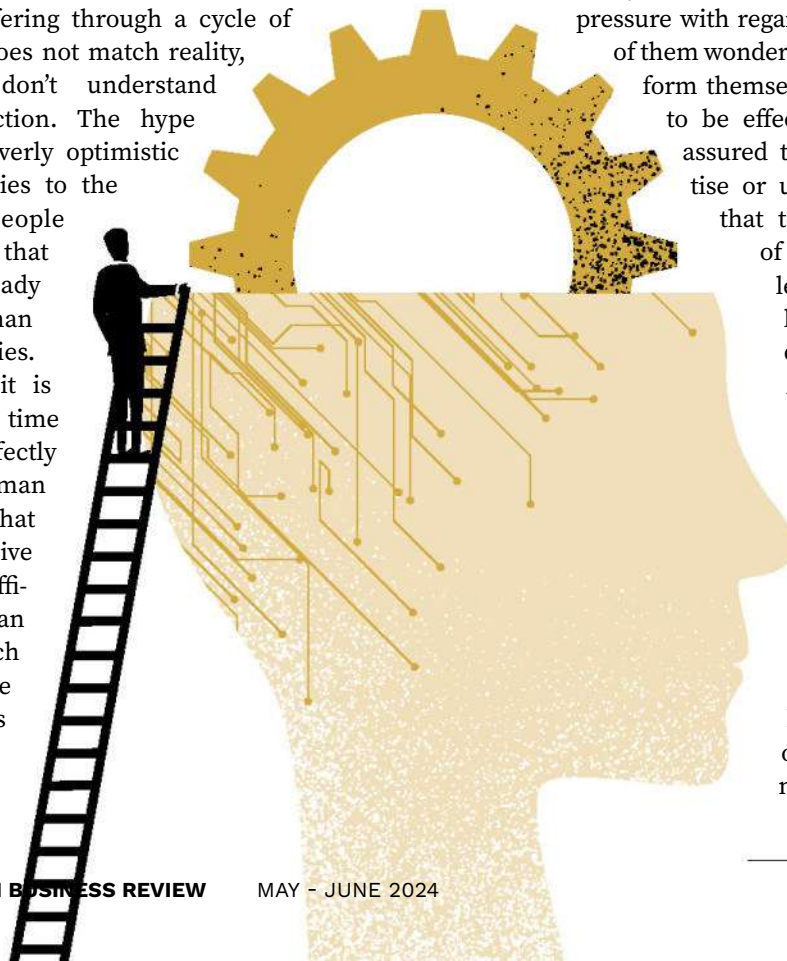
A *Budget wisely.* Once organisations decide to embark on their own AI journey, they commit most of their budget (70-80 per cent) to adopting AI, only to find that, without proper integration, these investments fall short. Business leaders making the decision to bring AI into their organisation usually focus primarily on the *investment* made in the technology. In their minds, AI adoption can have direct effects on making the organisation run more efficiently, so that putting AI to work will have a straightforward effect on

enhancing productivity and increasing profit. This rather narrow-minded focus means that the interests of the employees are assigned less weight during the introduction and integration of an AI project in the organisation. And this is a problem, because AI does not have a direct effect on the efficiency of the organisation. Whether AI creates impact will depend first on the willingness of employees to use it, and of customers to accept the use of the technology in how they're being helped and served. So, AI adoption budgets need to include sufficient resources for the implementation phase, as well, where business leaders will have to work with the human workforce to ensure that AI is used effectively, and jobs are redesigned to allow AI to augment the abilities and performance of employees. It goes without saying that this can be a costly affair and any budget needs to take those costs into account.

AI is not the same as human intelligence. Leaders need to clearly understand that artificial intelligence and human intelligence are two different things. In the business world, we seem to be suffering through a cycle of hype with AI that does not match reality, because leaders don't understand this crucial distinction. The hype has made people overly optimistic about AI's capabilities to the extent that many people increasingly think that AI systems are already matching human intellectual abilities. They believe that it is only a matter of time before AI can perfectly replicate the human brain. And when that happens, expensive and not-always-efficient employees can be replaced by much cheaper AI, capable of self-learning. This kind of thinking, however, is overly

optimistic and unrealistic and may even turn out to be dangerous. Brain scientists themselves argue that our understanding of the human brain, with its roughly 86 billion interacting neurons, is sketchy and provisional at best. With such incomplete knowledge about the brain, we cannot seriously say that we have succeeded in matching human intelligence with AI. At best, we have brought to the fore a narrow kind of computational intelligence that can complement our human intelligence. But not replace it. And it's only by realising this truth about AI that leaders, in my view, will be sufficiently AI-savvy to create a narrative where they will be able to explain to their workforce why and how AI should be used, considering the business goals that need to be pursued. Because only then will they understand themselves and make others see that AI adoption is still about humans first and machines second, because AI is used to augment human intelligence.

You do not need to be a tech expert! Executives in my advanced leadership classes feel so much pressure with regard to AI that I've heard some of them wonder aloud if they needed to transform themselves into professional coders to be effective leaders on AI. But be assured that acquiring coding expertise or uplifting yourself to become that tech expert is not the level of AI-savviness that business leaders need. What business leaders need most is a foundational understanding of AI, and that includes learning about AI at two levels. First, learn the basics of what AI is and what it is not. Second, think about what AI is about in your business context, so it can drive your discussions with your tech experts with regard to what kind of AI will be most suitable to use. This, of course, means that leaders need to evolve and keep



learning about the developments taking place in the AI field and how those advancements will impact business practices.

Q How can leaders foster a culture of innovation and experimentation while still mitigating the potential risks associated with AI adoption, like job displacement or privacy concerns?

A We all know that innovation can only emerge if we experiment, which means that we test assumptions, fail, try again, and eventually succeed in delivering solutions for our problems. It's an important task for any business leader to create such conditions at work, and doing so requires interpersonal skills that allow for building a psychologically safe place to work. A place where trust exists and failures are not held against you, but seen as a learning opportunity. With AI becoming part of our work culture, experimentation is increasingly being seen as riskier. As I mentioned earlier, most business leaders lack a basic understanding of AI and so refrain from allowing room for experimentation to turn AI into a value creator. This means that, even though AI is believed to drive innovation to greater heights, this "innovation value" is often not achieved, because AI is not put to the test in collaboration with the workforce. An important task for business leaders today is therefore to empower their workforce to use AI, experiment with it, and provide feedback on how AI performs within the setting of a human workforce. This kind of information is necessary if one wants to integrate AI effectively in the company's workflow. This means that leaders need to try to create flat communication cultures to ensure that feedback about the use of AI quickly reaches both the teams that need to work with AI and the experts, who can then see how AI may need to be

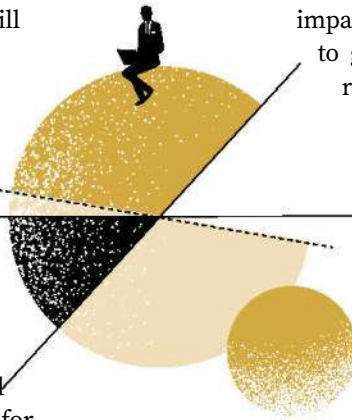
AI adoption budgets need to include sufficient resources for the implementation phase, as well, where business leaders will have to work with the human workforce to ensure that AI is used effectively, and jobs are redesigned to allow AI to augment the abilities and performance of employees.

used differently to create the expected business impact. But this is not where it stops. In addition to giving leeway to employees to use AI and report on it, leaders need to create goodwill among employees, so that they are open to the idea that they will have to work with AI in the future, and hence their jobs will be affected in certain ways. Creating that goodwill and trust implies that leaders create work conditions where employees feel in control of their job and still experience a sense of autonomy in how they work. In other words, they cannot feel that their job will eventually be controlled by the technology implemented. Here, it is important that business leaders stress the company's strategy that AI adoption is about humans first and technology second.

Q As AI becomes increasingly integrated into organisational processes, what opportunities do you see for leaders to leverage AI to enhance employee engagement, productivity, and overall well-being?

A This is an important question, because I see too many companies that are introducing AI as something that must happen, and where the perspective of the employee is largely ignored. If this happens, then it's almost a certainty that the AI adoption process will suffer, because business leaders will have failed to introduce AI as a tool that can benefit employees as well.

To prevent this situation from happening, it is first of all important that AI adoption is seen as an augmentation strategy. Of course, for routine and repetitive tasks, automation is nowadays accepted as the default choice. Jobs that require little creativity and that include the processing of massive amounts of data are increasingly being automated. But it is important that, as a business



leader, you can make it clear what purpose the automation strategy serves. In other words, making it clear to employees that automating the routine and repetitive tasks fits a strategy that is focused on making employees a better version of themselves in the work context. If business leaders remain silent and automation is seen as the primary strategy, the consequences will be that you'll end up with a less skilled workforce. Under such circumstances, people's jobs will become fragmented until the entire job is gone. When this happens, then the unique human qualities that AI does not have will also be absent. So, the use of AI is not to create fewer learning opportunities, but instead to enrich job content and add cognitive responsibilities for employees to learn and grow in their expertise and become better at what they do and empowered in their confidence and abilities. AI-savvy business leaders need to devote serious time to carefully preparing and redesigning jobs for the augmentation strategy to succeed.

Second, in the context of augmentation, the leverage of AI must be seen as a holistic strategy. Using AI in augmentative ways cannot – from both a practical and normative perspective – be seen as a unidimensional strategy focused on solely promoting people's efficiency and productivity. Humans are not unidimensional, rational task completers. They derive pleasure from other sources, and performance will not always improve just because people have been exposed to ways to improve efficiency and productivity. Humans also want their work to be intrinsically motivating and meaningful, not just maximally efficient or productive. Indeed, the human condition holds that people can be motivated by a need to feel competent, included, respected, and confident, and to be seen as moral and curious.

The use of AI is not to create fewer learning opportunities, but instead to enrich job content and add cognitive responsibilities for employees to learn and grow in their expertise and become better at what they do and empowered in their confidence and abilities.

A holistic approach is thus needed for any AI adoption project, as it will allow AI to be leveraged to promote employees' performance (and thus productivity) and, at the same time, positively affect the work identities and motivation of your employees. And this dual effect is the one that any company needs in order to become an AI-driven organisation without changing or adjusting its core identity and values. In fact, as it turns out, every AI adoption process has two sides. On the one hand, advances in AI promise exciting opportunities to dramatically reinvent your business, unlocking opportunities

for increasing productivity, optimising processes, and creating value. On the other, certain aspects of your business should hold steady – your core identity, your commitment to customers, your attentiveness to employee well-being, and more – so that you do not lose the essence of what makes your business unique. The rapid advancements in AI must not undermine the personal touch and purpose of your company.

Q Looking ahead, what do you



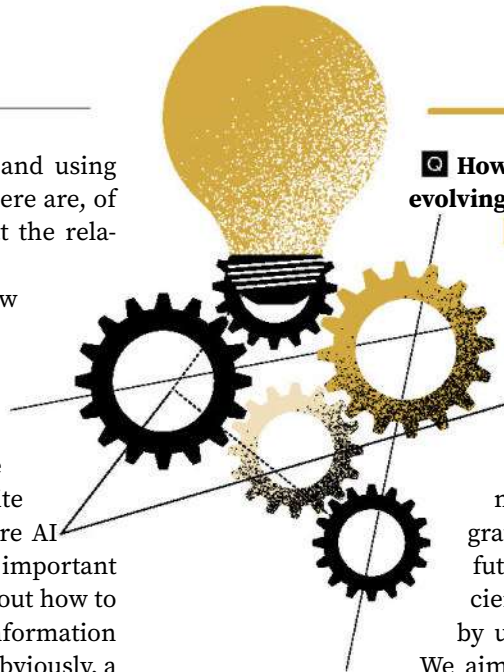
envision as the next frontier of research and practice in the intersection of leadership and AI?

A In my book, I focus on how leadership is needed to make AI adoption successful by stressing that transforming your organisation to be AI-driven requires even more attention to humans – by means of empowering, inclusive, and purpose-driven leadership – than to technology. To make this perspective successful, leaders need to understand their responsibilities in relation to making the use of AI

acceptable to all their stakeholders and using it in ethical ways. Having said this, there are, of course, also other ways of looking at the relationship between leadership and AI.

One other way is to consider how AI can be used by leaders in their decision-making. Leaders need to navigate their organisations in ever more dynamic and noisy circumstances, and the analysis of massive amounts of data is then a prerequisite to be successful. This is a place where AI will play an important role. So an important challenge for leaders is also to figure out how to use AI as an assistant in gathering information and putting that information to use. Obviously, a certain level of AI-savviness will still be required here, as business leaders need to be able to assess both the potential and limitations of the computational value of AI to their leadership decisions.

Another potential avenue for the study of the integration between leadership and AI concerns whether leaders can delegate some of their tasks to AI. The rapid developments in generative AI provide great opportunities for leaders to create bots that can sometimes do the talking for the leader as a first source of information. This is possible, as audio data would allow the bot to speak like the leader, while the AI allows for all knowledge available about the leader to be used for content delivery. Furthermore, research has also provided evidence that generative AI can reproduce accurately the personality of people as derived from the available data. Of course, having a leader bot available when the leader is not present requires high levels of transparency (everyone should know they're communicating with the leader bot) and clear communication on why the bot is being used, so as not to lose credibility and legitimacy as a business leader. At the end of the day, people value "authenticity", especially when it comes down to their leader. Any AI solution that forms a part of business leadership will therefore always have to be seen as an addition that is complementary to the real thing.



Q How do you plan to contribute to this evolving landscape?

A I see my contribution mostly in my roles as a business school dean, a scholar, educator, keynote speaker, and consultant.

As dean at D'Amore-McKim School of Business (Northeastern University), I have taken steps to redefine our mission and vision so we can integrate the pivotal task of educating our future business leaders to be sufficiently AI-savvy to create business value by using AI effectively and responsibly.

We aim for our students to be responsible business leaders who can act, navigate, and create in a tech-driven environment. To succeed in that kind of education, business schools do not need to train business leaders to become tech experts, but to equip them so they see technology as conduit and can acquire the necessary skills to put AI to use so that it creates the business value that they want to see. Technology develops so quickly that we do not need to train them to know what kind of AI will be available in five years (that's difficult to do, anyway), but rather teach them tech and human behaviour literacy, so that they are able to work with whatever AI is available then.

As a scholar and educator, I see it as my task to keep putting out critical thinking about the relationship between AI and humans and how it will affect our organisations and society at large. One observation that I want us to be cognisant of is the fact that the use of AI is still a choice that we can make. If you listen to everything that is being said about AI these days, it is relatively easy to believe that AI is a kind of magical force that no one can escape from. It is presented as something that is inevitable and will be used in any facet of life, whether you agree with it or not. Granted, AI is an amazing tool and brings a great power with it to transform our society in significant ways. But we do have a choice on how and when we want to use it. Humans created AI and we did so primarily to serve humanity. If, because of



corporate pressures, we narrow down the use of AI to being a means of promoting efficiency that humans will not be able to compete with, then we adopt a reductionistic approach to humanity. From a moral and humanitarian perspective, this is not necessarily a route that we must walk. And it's this kind of awareness that I want to keep alive for all of us.

As a keynote speaker and consultant, I see it as my task to bring a behavioural, human-centred perspective on AI to the bigger stage of the corporate world. In business, people are quickly swayed by the newest trends and fads, and this is also true for AI. I think that, as thought leaders, it is our job to think through different scenarios and present those insights to the parties whose use of AI will impact all our lives.

Q Given your extensive experience in both academia and consulting, what advice would you offer to leaders who are grappling with the complexities of AI adoption within their industries?

A The message, at the end of the day, will be the same, which is that, regardless of any technological breakthrough, organisations will always need leaders who are knowledgeable about the changes that are happening – with AI currently being a significant change in our organisations and society – and are able to translate their leadership responsibilities into the specific context of that change. Specifically, as a leader, I see it as necessary that today you push yourself to ask the question of what AI should be about in the context of your company. If you don't have an answer to that question, if you do not see what AI is for when it comes down to your company, then maybe you should not use it or you should not be the one leading the AI transformation of your company. You need to be able to make such decisions. The changes that intelligent technology brings to organisations are clearly non-negotiable and will make our organisations look and operate differently in the coming decade. What will not be different, however, is that businesses will continue to require strong business leaders to guide any technological transformation – leaders who participate, connect, communicate, and lead more than ever with a vision and purpose when AI enters the organisation. **EB**

EXECUTIVE PROFILE



David De Cremer is currently the Dunton Family Dean of D'Amore-McKim School of Business and professor of management and technology at Northeastern University (Boston), and an honorary fellow at Cambridge Judge Business School and St. Edmunds College, Cambridge University. Before moving to Boston, he was a Provost chair and professor in management at National University of Singapore and the KPMG endowed professor in management studies at Cambridge University. He is the founder and director of the Center on AI Technology for Humankind (AiTH) in Singapore, which was hailed by The Higher Education Times as an example of interdisciplinary approaches to AI challenges in society. He is one of the most prolific behavioral scientists of his generation, and a recognized global thought leader by Thinkers50. He is a best-selling author, including *“Leadership by algorithm: Who leads and who follows in the AI era?”*, and his newest book *“The AI-savvy leader: 9 ways to take back control and make AI work”*, which is published by Harvard Business Review Press in 2024.



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THE BUSINESS IMPERATIVE OF FEMALE LEADERSHIP IN AI

by Ana Paula Assis

AI has emerged as a transformative force that is reshaping businesses, economies, and societies worldwide. Business leaders in 2024 are at the forefront of this shift, responsible for guiding their organisations through this period of transition, and the strategies they implement today will have a lasting impact on the shape of their industries.

This is a huge responsibility and one that should not be held by a small demographic of people. For AI to fulfil its potential and create a positive impact, its leadership needs to be reflective of our society at large, developed by diverse voices, for everyone. A pivotal aspect of this is ensuring that female business leaders take a prominent position in the forefront of the AI revolution.

To explore this very topic, IBM EMEA has launched a new report, “Female Leadership in the age of AI”. Based on a survey of 4,000 senior business leaders in companies with 250+ employees across France, Germany, Italy, Saudi Arabia, Spain, Sweden, the UAE,

and the UK, the research examines how female business leaders are preparing for the AI journey, how their leadership experiences differ from those of their male counterparts, and how we can ensure that women have the tools they need to lead confidently.

While the technology sector has often grappled with diversity issues at its highest levels, this year we have the perfect opportunity to embrace the significant shifts occurring in the business landscape and place female leadership firmly on the agenda.

THE IMPORTANCE OF GETTING IT RIGHT

Increasing female leadership in the age of AI is not a “nice to have”; it is of paramount importance from a commercial, strategic, and societal standpoint.

This sentiment was felt strongly by the respondents in our research, with 73 per cent of EMEA business leaders agreeing that increased female leadership in the sector is important for mitigating gender bias in AI. From a technical standpoint, this is critical. AI – particularly generative AI – learns from its developers and users, so the participation of women in these processes is critical to mitigate the risk of unconscious bias that could arise without their direct involvement.



In addition, 74 per cent of respondents see female leadership as important for ensuring that the economic benefits of AI are felt equally in society. The socioeconomic impact of AI will be far-reaching and shaped by where investment is directed, which industries deploy effectively, which demographics are most affected by the shifting job market, and what societal challenges will be prioritised. Ensuring that we have diverse leadership at the top will be a critical part of ensuring fairness and equally felt benefits.

tech companies for a lack of genuine interest in diversity and inclusion. Other popular reasons were a lack of representation at C-suite level and inadequate family policies within companies.

THE CONFIDENCE GAP

Successful and efficient AI leadership will require business leaders to expand their skills and engage in continuous self-education around AI developments, new regulations, and compliance.

Our research found that both female and male leaders are preparing for the AI revolution on an equal footing, upskilling and training their personal digital skills, educating themselves on the shifting regulatory landscape, and creating internal compliance frameworks in equal numbers.

However, one significant difference between the two groups was that of confidence in their leadership abilities: 46 per cent of female respondents said they were strongly confident in their ability to lead their organisation in the era of AI, compared to almost two-thirds (61 per cent) of male respondents.

This confidence gap is stark, especially when our data showed that female leaders are preparing just as effectively as their male peers. It tells us that enabling female leaders in the AI era needs to go beyond technical training and include a comprehensive approach, providing women with the right resources and support systems to overcome barriers and grow in confidence.

According to McKinsey, in 2023 only 22 per cent of all the tech roles across European companies were held by women – a pressing issue that requires fresh attention.


The reasons behind this gender gap are multifaceted. When we asked our respondents what they thought the biggest barrier for women in tech was, there was no consensus, with 25 per cent believing a lack of digital education at school level was the primary obstacle, and another 25 per cent blaming the

Enabling female leaders in the AI era needs to go beyond technical training and include a comprehensive approach, providing women with the right resources and support systems to overcome barriers and grow in confidence.

THE PATH FORWARD FOR FEMALE LEADERS IN AI

Recognising the importance of female leadership in the age of AI goes beyond addressing gender disparities; it is integral to building a technologically advanced and socially responsible future. Our research shows that when it comes to preparing for the age of AI, women are stepping up, honing their technical skills and participation in the creation of AI strategies at

the same rate as men, yet are still lacking in the same levels of confidence.

As we progress into 2024 and navigate the complexities of the shifting AI landscape, fostering an environment that values and empowers female leaders must be a priority for businesses and a central part of building an inclusive AI ecosystem. 

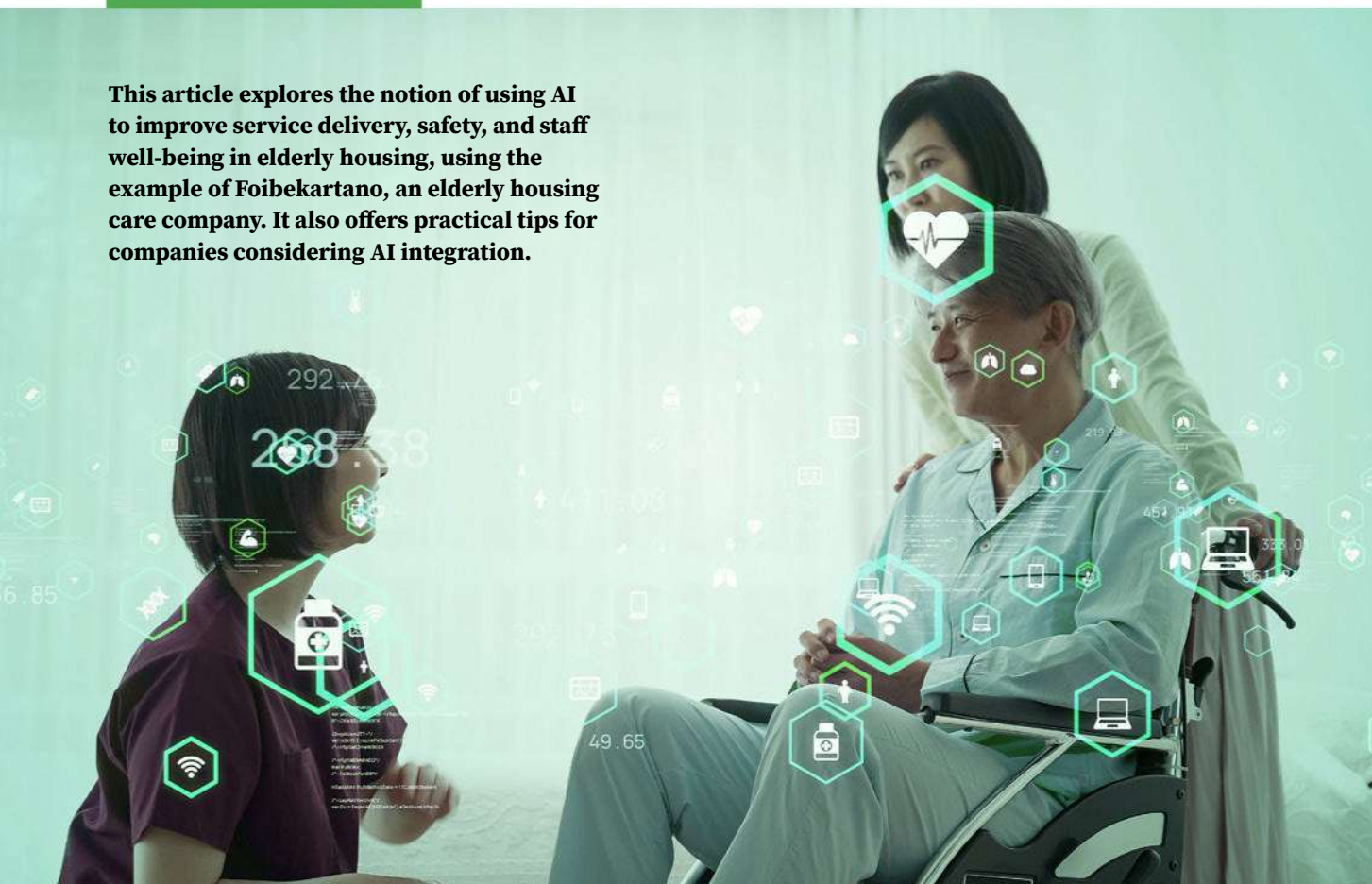
ABOUT THE AUTHOR



Ana Paula Assis is the Chair and General Manager for IBM Europe, Middle East, and Africa (EMEA) since January 2022. In this role, she is responsible for IBM's business operations,

driving revenue growth, client satisfaction and employee engagement in a region with more than 100 countries.

This article explores the notion of using AI to improve service delivery, safety, and staff well-being in elderly housing, using the example of Foibekartano, an elderly housing care company. It also offers practical tips for companies considering AI integration.



EMBRACING AI: THE NEXT FRONTIER IN ELDERLY HOUSING

by Dr Ulla Broms and Dr Anna Lahtinen

The elderly housing sector has been somewhat slow in the adoption of technology and artificial intelligence, compared to other industries. Contrary to popular belief, AI does not necessarily signify a loss of jobs or diminished human interaction. Rather, it carves out more space for meaningful human engagement by streamlining routine tasks. AI can be instrumental in promoting human interactions with senior residents and discovering innovative solutions for monitoring staff well-being, ultimately putting human capabilities to their best use – fostering human connections.

To date, only a scant number of companies and organisations in Finland have shown serious interest in integrating AI into this field. Finnish elderly housing company Foibekartano, is at the forefront, forging a new path in the company and in the health and social care industry.

Embarking on the path of AI development, Foibekartano adopts a pioneer mindset in diverse housing services for the elderly and with advanced thinking.

The company took part in the AI-TIE AI accelerator, coordinated by Haaga-Helia University of Applied Sciences and implemented together with Laurea University of Applied Sciences and a network of partners. This helped the company gain AI understanding from the business perspective and to pilot first AI solutions. Some of the key outputs and lessons from the experience are depicted next. We conclude the article with practical tips and insights for SMEs venturing on an AI journey.

SMES OFTEN EMBRACE A PRAGMATIC APPROACH TO AI: A CASE OF FOIBEKARTANO

SMEs often focus on tangible opportunities in AI. Finnish SMEs identify the greatest potential for AI application in product and service development, production, quality control, service, remote diagnostics, sales, marketing, HR, finance, and IT functions (Lahtinen 2023).

In elderly housing, in the case of Foibekartano, AI solutions can be implemented in customer homes to simplify everyday routines. There is considerable scope for AI integration in areas like **medication administration** due to the wealth of data available. AI could serve as a **reminder for routine activities** such as blood pressure measurement or bandage changes while also monitoring the residents' weight and other key health parameters. Furthermore, AI has significant potential in **ensuring medication safety** by identifying potentially harmful medicine combinations. Voice recognition plays a pivotal role in **recording daily activity data**, which can be done in cooperation with the elderly residents. Another facet of AI deployment in elderly housing is 24/7 monitoring and control, ensuring constant **oversight and safety**. However, it's crucial that control does not shift solely to machines. Instead, AI should operate in conjunction with human oversight, taking into account AI-related risks and maintaining a balance of human control.

In the case of Foibekartano, the company strives to accumulate knowledge and experience regarding the practical application of AI in their industry. In the company's approach, strategic AI goals are intertwined with everyday operational needs. The company seeks opportunities to pilot innovative AI applications in their daily tasks, significantly enriching their professional scope.

AI could serve as a reminder for routine activities such as blood pressure measurement or bandage changes while also monitoring the residents' weight and other key health parameters.

One innovative application at Foibekartano is in the realm of **human resource management**, focusing on employee well-being. The company initiated a voluntary pilot programme, where a small group of employees tested smart rings and smartwatches. These devices, equipped with AI and advanced technologies, monitor wellness indicators such as sleep quality and overall daily functioning. The data collected is reviewed weekly, allowing comparisons based on voluntary participation and is documented in a blog. This initiative demonstrates the accessibility and utility of AI applications for SMEs, showcasing how they can leverage these technologies to enhance workforce well-being and explore potential further applications in their sector.

In addition to trying out existing AI applications, the company experiments with the development of unique and company-specific solutions. Foibekartano's current AI development efforts lie in two distinct domains: **food delivery robots** and **AI-driven workforce planning** which are described next.

In the unique scenario of food delivery between Foibekartano houses, the company foresees a potential role for robots. AI could significantly mitigate the challenges posed by factors such as snow and winter weather and work safety concerns related to the large trolleys used for food transportation. An AI robot, capable of learning and adapting to specific routes and unique situations, could effectively handle these issues.



Regarding workforce planning, this is traditionally perceived as a manual and time-consuming task and emerges as another area ripe for AI intervention. While acknowledging and taking into account the complexity added by employees' preferences and schedules, Foibekartano sees immense potential for streamlining this task through AI. The company has found that a methodical approach of piloting, learning, and adapting is an effective way to advance in this sphere. The experiences in developing this solution as part of AI-TIE AI accelerator are described in more detail in [Empowering SMEs with Artificial Intelligence](#) -guide, see "Foibekartano: Automation of shift planning with artificial intelligence".

AI ACCELERATION: A STEPPINGSTONE TO AI PILOT SOLUTIONS

The interest in AI is on the increase, and AI acceleration programmes offer support for gaining AI understanding and its potential business value. Foibekartano participated in an AI-TIE AI accelerator that was tailored to SMEs in the Health and Med Tech sector. In the company's experience, active participation in an AI accelerator serves as a robust foundation, enabling companies to gain practical knowledge about AI and its potential applications. This platform paved the way for Foibekartano to learn and develop AI-based solutions that suit their unique needs in the elderly housing sector.

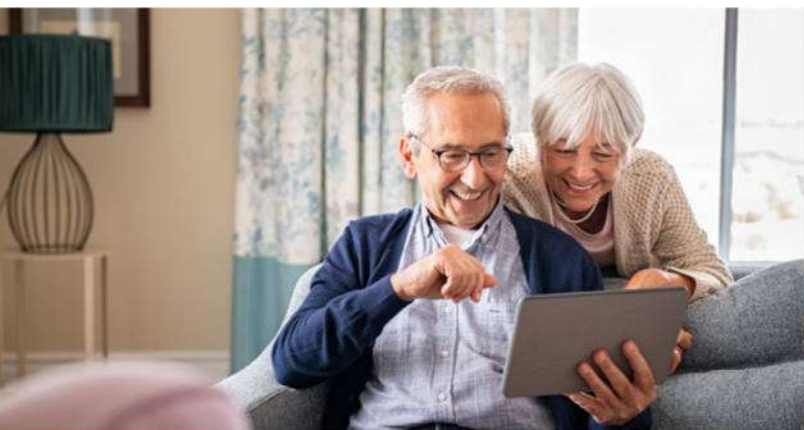
The entry into the world of AI was relatively smoother for Foibekartano, partly because of the company's long-standing active engagement in digital and technological advancements. Among various initiatives, the company has previously

developed user-friendly communication tools that facilitate seamless interaction between residents and staff.

AI acceleration practices show that it is essential to involve a larger number of employees in gaining AI skills and brainstorming about AI solutions. This helps to bring employees to the same understanding about AI and gets both the business and IT sides involved. It is essential to facilitate and open dialogue between all people involved in the development. Progress is not always easy, and it is valuable to recognise and document challenges that are faced along the AI integration path.

AI acceleration practices show that it is essential to involve a larger number of employees in gaining AI skills and brainstorming about AI solutions. This helps to bring employees to the same understanding about AI and gets both the business and IT sides involved.

Significant and clear management support is critical for effective AI deployment, enabling continuous conversation and target setting within the organisation. "Successful adoption of AI is inevitably driven and supported by visionary leadership. In the context of SMEs, it's the commitment of the management that often serves as a determining factor," shares Dr Ulla Broms, CEO of Foibekartano. "In our case, our earnest exploration of AI possibilities has resulted in us expanding our professional network well beyond traditional limits. Furthermore, this has also put Foibekartano in an advantageous position in recruitment matters. It's noteworthy that while many other companies within this sector in Finland are grappling with staff shortages, we've managed to maintain our appeal as a preferred employer. This can largely be attributed to our culture of innovation and our openness to experimentation, AI pilots included," Broms adds.



This writing is part of the project "[AI-Smart SME: Transformative Power of Utilizing AI for SMEs and Their Employees](#)". The project highlights the significance of AI as a journey of transformation at both individual and corporate levels. AI revolutionises the work environment and reshapes the roles of employees: the project supports the adoption of AI by SMEs and their employees. The project is implemented by Haaga-Helia University of Applied Sciences. Partners of the project include Business Helsinki, KEUKE, Western Uusimaa Chamber of Commerce, Health Tech Finland, Professionals of Business and Technology, Uudenmaan Yrittäjät, and Business Mentors Finland. The implementation of the project is supported in the role of financier by The Finnish Work Environment Fund.



CHARTING THE COURSE: BUILDING AN AI STRATEGY

The strategic utilisation of artificial intelligence and the management of customer data have been particularly emphasised at Foibekartano. The company is developing a comprehensive AI strategy that emphasises the protection and ethics of customer data, including also employee data. This is especially significant in the social, healthcare and welfare sectors, where the handling of customer data is strictly regulated. Foibekartano's AI strategy not only enhances operational efficiency but also minimises risks associated with the handling of customer and employee data and potential risk situations. This approach underscores the protection of customer and employee interests and simultaneously creates a model for responsibly leveraging artificial intelligence.

Developing a clear AI strategy is a notable part of setting up the path for its future development, and gaining engagement and commitment from all parties involved. It is essential to take control of AI at a strategic level, to effectively utilise data in operational activities. The creation of an AI

strategy is a task that ideally incorporates both the company's internal and external interest groups, and offers avenues for addressing development efforts across a wide scope of the company's business processes.

The incorporation of AI presents immense business opportunities for all industries moving forward, creating vast potential for the future. On this path, Foibekartano, like many other SMEs, is currently engaging in the deployment of AI, having grounded its AI strategy in data, leveraging the myriad of sensors and robots at its disposal. While still at the beginning of AI deployment across its business operations, the company recognises that by harnessing AI, the organisation is capable of tailoring marketing efforts to specific customer groups, resulting in more efficient and targeted promotions. This, in turn, offers good grounds for remaining competitive in the sector.

AI is a valuable resource both for external and internal processes, and it offers new possibilities for workforce empowerment through AI. Looking at the broader picture, AI simplifies everyday tasks, transforming job descriptions into roles that personnel find logical and appealing. This technology enhances not only the efficiency of tasks but also their attractiveness to the workforce.

As a part of an AI strategy, there is a data strategy of an organisation. Enough quality data is essential for AI use case development. However, the situation might be different for some organisations, such as Foibekartano. Instead of a lack

of data, the challenge often lies in the abundance and form of the available data. Foibekartano, for instance, has a significant amount of data that must first be transformed into a usable format. The key point here is that the healthcare industry is heavily regulated, and this needs to be respected and considered. Furthermore, as Foibekartano learned, the format of the company's data was such that it was not initially intended for research or AI applications but rather for monitoring, surveillance, and ensuring the legal protection of customers and staff. In this case, there is an abundance of existing data; but the challenge, due to regulation, is determining which data can be utilised.


LEVERAGING AI IN SMES: PRACTICAL TIPS AND INSIGHTS

As we reflect on the journey of Foibekartano with AI and the invaluable insights gleaned from the AI-TIE AI accelerator, these experiences can serve as practical tips for SMEs venturing into creating their own AI story. Here are some key takeaways to ensure a successful AI integration:

- **Data-driven strategy:** Quality data is the fuel that drives AI development. If an SME lacks this, the primary focus should be on overcoming this challenge before progressing with AI solutions. A sufficient amount of quality data is key, and industry-specific regulations need to be considered.
- **Investment in resources:** AI requires a significant investment of resources, both in terms of time and finances. It is crucial to recognise and embrace this aspect from a business perspective to succeed in AI integration.
- **AI thinking across the organisation:** AI integration is not limited to a specific team or department; it must permeate the entire organisation. This necessitates active communication and support to ensure everyone feels part of the valuable developmental process.
- **Exploiting AI opportunities:** AI presents numerous opportunities for both internal process improvement and customer-facing solutions.

Recognise and utilise these to boost efficiency and create exciting new products or services.

- **Courage and commitment:** The journey into AI demands courage and unwavering commitment from an SME and its team members. Embrace the new, experiment, and be prepared to learn.

In conclusion, embracing AI is about leveraging the power of data and technology to drive competitiveness, growth, innovation, and internationalisation. With the right mindset, education, resources, support, and commitment, SMEs can fully tap into the potential of AI, just as Foibekartano has done. 

SOURCE

Lahtinen, A. (2023). "Empowering SMEs with AI: Success Stories, Tools and the Future 2030" [Webinar presentation]. Webinar: Artificial Intelligence in SMEs –Relatable Stories and Practical Tools from Finland; Finland, Helsinki. Presented on June 13, 2023.

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Currently Dr Broms is the CEO of Foibekartano, an elderly housing care, with the aim of offering diversified experiences and services that support a "good life community" for the elderly. Before joining Foibekartano, Dr Broms worked as a social and health service director in a municipality. With a long working experience in health care, she also has extensive knowledge of research at the University of Helsinki.



Dr Anna Lahtinen, DBA, serves as a Senior Researcher at Haaga-Helia University of Applied Sciences in Helsinki, Finland. With a specialisation in the transformative effects of Artificial Intelligence (AI) on work life, businesses, and careers, Dr Lahtinen brings over two decades of comprehensive

experience spanning industry, entrepreneurship, startups, and academia, both in Finland and internationally. Her work has led several research, development, and innovation projects aimed at implementing AI, supporting over 150 companies and organisations in leveraging AI technologies and developing related skills. An internationally recognised scholar, Dr Lahtinen is the recipient of the "Academic Paper Most Relevant to Entrepreneurs Award" from the United States Association for Small Business and Entrepreneurship. Her recent publications include "[Guide to Empowering SMEs with AI](#)" and the "[AI in Finland](#)" video interview series, where Finnish influencers, industry leaders, and public figures share their experiences with AI.



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HOW AI LIBERATES THE TRANSITION TO **A SKILL-BASED ORGANISATION**

by Jacques Bughin and Jeroen Van Haute

What do companies as diverse as Booking.com, [Accenture](#),¹ Revolut, GSK, Walmart, or Unilever have in common? Answer: they have been on a common journey to migrate their organisation to a skills-based organisation (SBO).

At a time when the skills mix of workers is exploding and the future of work is dramatically changing with work-from-home, automation, and AI, front-running companies are moving their organisations to [a world of better skill use and continuous learning](#).² But what they mostly find is that AI skill tech is a critical software solution to support the journey to an SBO.

1 THE CAUSES AND REWARDS OF SBO

The concept of the SBO represents a paradigm shift in the traditional working model. Instead of rigid job-centric structures, these organisations prioritise human skills, defining work by breaking down roles into tasks and activities based on required competencies. This transformative approach fosters an environment that values employee expertise, continuous learning, and adaptability over traditional siloed structures.

The trend towards skills-based organisations (SBO) is now well established and is inevitable for at least three reasons.

The first is that digitisation and other trends are shifting the skill set needs for the workforce. One would argue that skill shift has always been there. For example, coal miners in the past used to carry out heavy physical and manual tasks requiring gross motor skills and physical strength. Today, they increasingly operate machines that do the heavy and dangerous toil, and need to apply more complex skills by monitoring equipment and problem solving. Nurses in 1957 were required to administer medicines, monitor patients by taking their pulse and temperature, and help with therapeutic tasks, including bathing, massaging, and feeding patients. Today, they still administer medicines to patients but also help perform diagnostic tests and can analyse the results, employing skills and filling roles that were more common to doctors half a century ago. [But our research](#)

with Nobel Prize recipient Chris Pissarides³ shows that the skill shift has been accelerating in recent years, and the skill obsolescence rate has been *doubling* in the last decade.

Second, the number of skills the workforce needs to master is only getting *larger*, not smaller, per individual. The skill set is moving to soft skills and, under a digital lens, skills that are also notoriously absent from the main scope of traditional educational systems. The result is an increasing mismatch where the skills of workers are badly utilised. As a case example, consider taxi drivers. While, in 1970, fewer than 1 per cent of US taxi drivers had a college degree (meaning they master some clear cognitive skills), the proportion had risen to nearly 15 per cent by 2013 and [is now reaching 17 per cent, with close to 10 per cent of them with a business and engineering degree](#).⁴ Sure, those skill sets may be useful elsewhere.

Other research by OECD and other academic labour market scholars, using the PIACC skill taxonomy, concluded that skill mismatch affects 30 per cent of workers in *any* of the 34 countries it analysed.

Third, AI itself is radically building a major skill shift and a new organisational model of the workforce where workers [must augment their skills with technology](#)⁵ while seeing tasks automated. Finally, using the catalyst of the COVID-19 crisis, a lot of organisations have been testing and promoting new work models, such as remote work. [What we recently found](#)⁶ is that, in general, the difference between using and avoiding fully agile work environment has been associated [in the last three years with 3.1 points of extra revenue growth annually](#)⁷ for large companies worldwide.

Given those trends, companies which have adopted an SBO are demonstrating some clear rewards. A plethora of research mentions among other things that [SBOs are 52 per cent more likely to innovate](#)⁸ and 57 per cent more likely to anticipate and respond effectively to change. [They have a 98 per cent likelihood of retaining their top talents](#).⁹

2 AI TECH IS A MUST-HAVE TO POWER THE SBO TRANSITION

From the above, pivoting to an SBO is one of the most robust proven ROI cases. In fact, a typical mismatch of skills of 20-30 per cent at the level of the firm is not unusual, and may translate to a gap (versus a perfect match) of [more than 5-6 per cent of productivity loss](#).¹⁰ On a global basis, this is a 5 trillion GDP gap, linked to misuse of labour skills, according to consultancy BCG. And this does not take into account the fact that employees may feel frustrated, especially high performers.

Evidently, the organisational pivot is a fantastic opportunity for the CHRO, but it is nevertheless a massive enterprise-wide task for which the CHRO may have operational accountability. Fortunately, this is where AI tech comes to the rescue.

While [AI adoption](#)¹¹ has seen a staggering 70 per cent increase across business over the past five years, the spotlight has often been on supporting customer services and supply chain optimisation, but is now also moving into a key untapped potential in the field of so-called “skills tech”. This emerging market, with pioneers like TechWolf, Workday, or Skillate, is at the forefront of delivering AI solutions and tools to *unleash the power of the skill-based organisation*, storing and defining skills, inferring competencies across the workforce, and predicting/recommending training needs using AI and machine learning.

Powered by machine learning and data-driven tools, companies can then exhaustively map the current skills of their workforce. This involves creating skills matrices to identify existing skill sets within the organisation, highlighting strengths and weaknesses. This information then enables strategic planning of skills enhancement and renewal initiatives, ensuring that employees remain relevant and equipped for the jobs of tomorrow. AI skills technology acts as a visionary force, predicting future workforce needs, also identifying areas where additional training or recruitment may be required to meet the demands of future work.

Digitisation and other trends are shifting the skill set needs for the workforce.



3 MAPPING THE HR TECH JOURNEY

If a company has not already embarked on the journey, then here are five key important steps.

STEP 1: GET READY

SBO is a pivotal change. Hence, only a CHRO who has the drive, the vision, and the support of the board can make it happen.

STEP 2: SELECT YOUR SKILL TECH PARTNER


As discussed, SBO must be implemented and facilitated by skill tech. While some large providers will claim to have the right solutions, the best of these are coming from AI-native firms that can support a comprehensive AI factory for HR, including cleaned and accurate skill data, AI algorithms that fit HR needs, and AI Ops that make AI easy to use by employers and employees. On top of those qualities, (mostly cloud) app-based solutions allow ease of integration and access, and providers must have strong proof of data security.

STEP 3: CLARIFY

One major issue of the SBO is that CHRO and organisations will jump without having built the definition and taxonomy of skills they want. Having one unique definition of skills is a critical first step. The second step is the main objective of the transition, whether it is mismatch resolution and hiring speed-up, a skill-based internal labour market with the enterprise, etc.

STEP 4: IMPLEMENT AND BUILD WORK-FLOWS AROUND SKILLS

STEP 5: MOVE FROM EMPLOYER-CENTRIC TO EMPLOYEE-CENTRIC: DEVELOP THE BEST SKILL PORTFOLIO FOR EACH EMPLOYEE

If all this is clear, it is time to launch that SBO.
What are you waiting for? 

ABOUT THE AUTHORS



Jacques Bughin is the CEO of Machaon Advisory and a former professor of Management. He retired from McKinsey as a senior partner and director of the McKinsey Global Institute. He advises Antler and Fortino Capital, two major VC / PE firms, and serves on the board of several companies.



Jeroen van Haute is a co-founder and CTO of TechWolf, one of the fastest-growing AI companies in Europe. The company leverages AI to help organisations understand the skills of their workforce and works with some of the world's biggest brands. Jeroen developed his expertise in AI at Cambridge University and is recognised by the World Economic Forum and Forbes Under 30 as a leader in technology.

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STRATEGIC EXCELLENCE: Steps to Maximise ROI in GEN AI Implementations

by Stephan Kudyba and Agnel D’Cruz

The power of generative artificial intelligence (GEN AI) has organisations of all types intrigued and clamouring to leverage its functionality to enhance productivity, improve their financial bottom line and maintain market share or possibly achieve a competitive advantage. Increasing the speed and robustness of information assets presents ample opportunities for process applications. However, the jury is still out on a few issues for implementing this technology to achieve truly valuable results. Issues involving the data that must be accessible for large language models (LLMs), verifying the output generated and where to apply the platform to operationalise it for a sustained production environment introduces difficulties in its adoption.

The following steps provide a high-level methodology on how to best approach the implementation of GEN AI to produce effective results that will justify the cost of the strategic initiative.

Throughout the step-wise approach, a major factor must be emphasised, and this is the involvement of expert knowledge of workers at all levels. It is an essential element to achieving success. A phrase that sums up the process is best stated...true value in Generative AI involves a collaborative environment integrating top-down strategy and bottom-up implementation.

1 Establish knowledge transfer to strategic management and SMEs regarding the functionality of GEN AI. This goes beyond simply presenting generic prompting and content creation but involves prominent process applications.

In other words, knowledge experts within a given organisation must be informed of what GEN AI can actually do. Examples include:

- Devising marketing correspondence for a production environment
- Examining and extracting information from complex and lengthy documents
- Creating computer code and reverse engineering legacy systems
- Creating imagery
- Identifying gaps and new, evolving elements in existing content

Possible GEN AI functionality can help maintain parity with the market given its adoption by competitors. Competitive advantage could be achieved through faster time to market of custom information creation (e.g. combining internal data with that of open source).

2 Conduct collaborative knowledge transfer among informed knowledge experts along with GEN AI technicians

(e.g. vendors) to achieve optimal organisational applications.

Knowledge creation is best achieved through an open collaboration of knowledge assets (e.g. SMEs). Individuals who understand GEN AI capabilities and best applications in a given area need to collaborate in order to optimise potential roll-outs. Diverse perspectives and cross-functional input can uncover both routine and innovative opportunities to create value with LLMs.

For example, leverage customer feedback from voice and online sources to enhance product attributes according to consumer (sizing, delivery, price, etc.).

This step not only entails the identification of best areas of GEN AI applications but also should involve estimations of potential returns. In the case above, adjusting product attributes yields increased customer satisfaction, sales, repeat buying, etc. Or in the case of a more routine application (streamlining marketing resources), estimate the expected reduction in labour and the value of re-allocated labour to more productive activities in the firm.

Individuals who understand GEN AI capabilities and best applications in a given area need to collaborate in order to optimise potential roll-outs.



3 Once realistic GEN AI applications that prove tangible value have been identified, cost estimates need to be generated to measure implementation versus potential gains.

Technology And Technology Labour Costs

Data resources that must be accessed by LLMs must be identified, which involves the incorporation of data engineers when considering internal data or the combination of open source and internal data for competitive advantage. These engineers must estimate the time for alignment and optimisation of required data (e.g. cloud-based, internal repository based).

Computer processing costs entailed in LLMs utilisation must be included.

Editing And Verification Costs

Costs required for the selection of editorial staff time must be initiated. This entails labour resources required to authenticate created content (e.g. safeguarding against adverse, incorrect, outdated content or hallucinations) and potential copyright infringement. This mitigates the risk of costly legal or accountability issues.

Total cost must then be weighed against the expected value created by GEN AI incorporation. The estimation of value must be recognised with variances, given the uncertainty of outcomes achieved, where probabilities should be considered.

4 Value estimation consideration: “Reduction” in cost (e.g. savings in a reduction in labour hours through streamlined processes)

“Enhanced” market share through competitive advantage in producing timely custom content. This may

include knowledge-enhancing content for internal processes (e.g. adjusting product attributes to consumer needs) or creating custom content of timely information for sources external to the organisations (e.g. customers, suppliers).

“Reduction” in risk of losing market share to competitor activities who adopt GEN AI .

Risk Management is Key

As is the case with many innovative technologies available to the entire market, organisations must not only consider if the functionality is a fit for their organisation but whether they are exposed to loss of market position by competitors effectively adopting it. One of the main advantages of GEN AI is speed, or how quickly content can be created. This speed element includes the ability to generate ideas (identify

critical content initially not thought of etc.). Speed also entails vast processing capabilities of information resources to streamline operations. Both of these can increase the exposure of losing market share.

Risk also involves the exposure and accountability of missing adverse content created (e.g. a missed hallucination or simply including inaccurate sources for creating content). This opens exposure to legal ramifications and loss of market share by producing content violating copyright laws, or releasing inaccurate content to customers.

5 Prioritise projects according to value and risk reduction

After consideration of the previous steps, organisations must answer a major question. Is the project really worth it?

This considers the company's risk profile and cost/value analysis. If the answer is YES, then move on.

It is time to select the application that best fits the organisation's situation. What this involves is an examination of some previous steps. Prioritisation of a GEN AI implementation should focus on the following elements:

1. How exposed is the company to loss of market share by not taking action?
2. How significant is the process that will be augmented with GEN AI (will the implementation make a real difference to its performance?)

To illustrate these points, consider a hypothetical case in the insurance industry.


The application of GEN AI may augment an insurance provider's ability to identify the elements required for custom coverage to an entity (individual, group, etc.) in a timelier manner than industry standards.

The ability to provide a quote for custom coverage faster than the industry



norms may increase market share, given the augmentation of the customer experience. The risk exposure of not moving on GEN AI may be high. However, an additional risk that must be considered is that of devising coverage elements with inaccurate information.

6

The final stage is the roll-out of GEN AI for the application. At this stage, data sources should be aligned, LLMs trained through the engagement of data scientists and prompters, and SMEs should be in place to measure accuracy. An overall assessment of the entire performance of the platform must take place, where the critical elements to focus on are the accuracy of content and time to production. The new process must evolve regarding new data sources and LLM accuracy. 

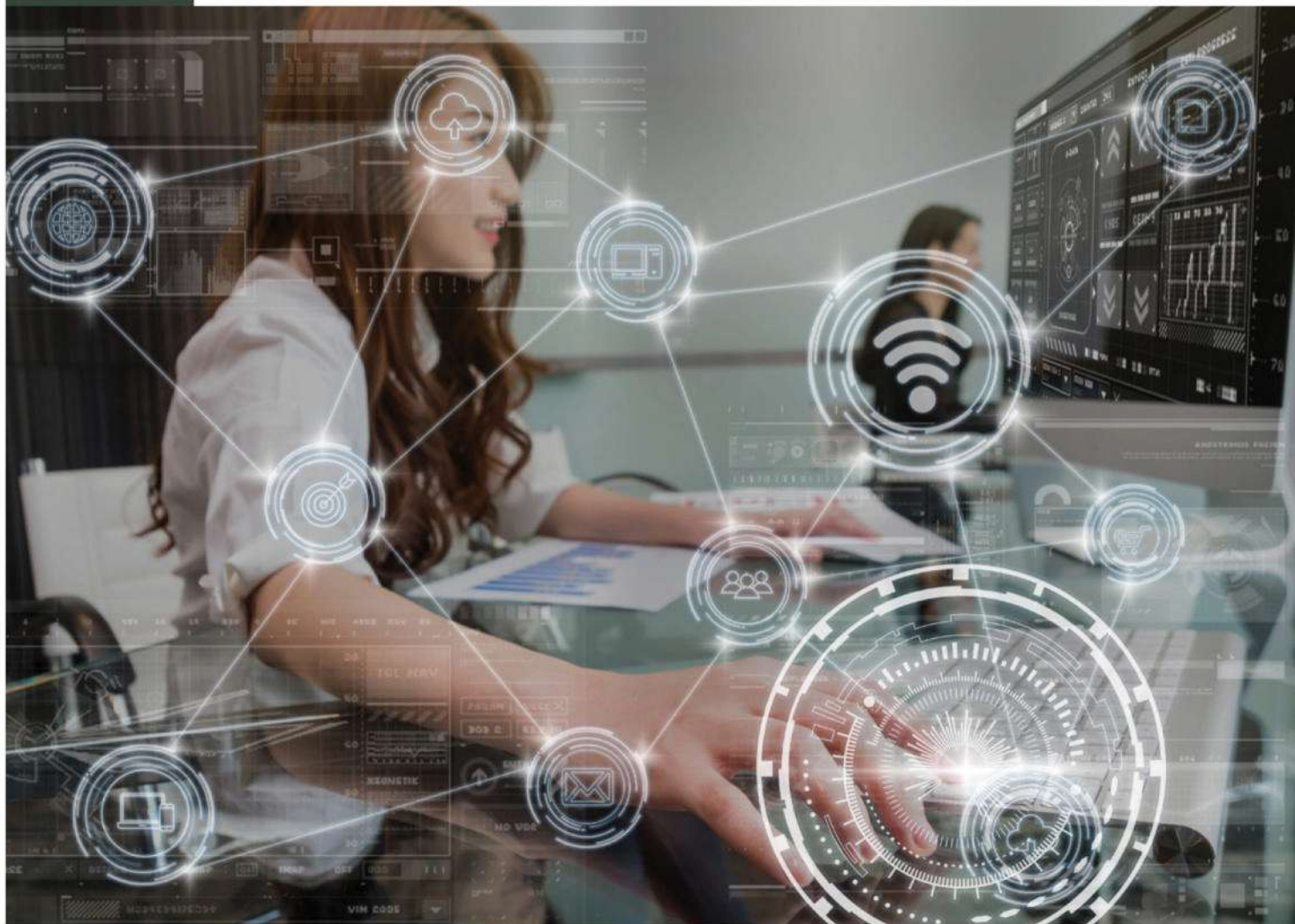
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LEADING THE GEN AI REVOLUTION: **BUILDING WORKERS' TRUST TO REINVENT WORK IN EUROPE**

by Tim Good, Andrew Young and Mamta Kapur

Europe is currently undergoing a generative AI-driven transformation in the world of work. While leaders are confident this is a win-win for everyone, workers are more cautious. The onus lies on leaders to establish conditions that reassure workers and affirm the pivotal role they can play in this evolution.

KEY TAKEAWAYS:

1. Gen AI has the potential to transform 44% of the total work hours in 10 major European countries.
2. Done right, Gen AI opens up a trifecta of opportunities – economic, business and human.
3. Leaders will need to learn how to close the trust gap with workers, who are central to Gen AI-led transformation of work.

Generative AI (Gen AI) is set to transform vast swathes of industry in Europe when it comes to how, where and by whom work is performed. Customer service executives, banking employees, writers, art directors, legal assistants, coders, health providers, everyone will need to learn to work differently — hand-in-hand with Gen AI tools.

Success hinges on how organisations will reinvent work and prepare workers for a Gen AI-infused workplace. However, a recent study by Accenture shows that workers lack complete trust in their organisations to deliver positive outcomes.¹ How can leaders close this trust gap? A group of organisations that are at the forefront of enterprise-wide reinvention can offer valuable insights into earning workers' trust. Specifically, on how to lead and learn in new ways, reinvent work, reshape the workforce and prepare workers responsibly. At the core of it all is prioritising people throughout.

Gen AI in Europe: Paving the way for future human-machine collaboration

- Gen AI has the potential to transform **44%** of the total working hours in 10 major European countries — particularly in technology, finance and operations functions.
- Through automation and augmentation, Gen AI has the potential to impact **more than 50%** of all working hours in six out of 19 industries.
- Globally, **seven of the 10 countries** that stand to make the highest productivity gains through the use of Gen AI **are in Europe.**

While industries in the financial services sector — capital markets, insurance and banking in particular — have the highest exposure to Gen AI, no industry is likely to remain untouched. And, while former transformations focused primarily on productivity, in the age of Gen AI, entire value chains and business processes are ripe for reinvention, dramatically impacting work, how work flows through an organisation and how workers experience it. Done right, Gen AI opens up a trifecta of opportunities — economic,

business and human.

- **Economic:** Comparative analysis of global Gen AI adoption and innovation scenarios shows the potential to add 2.3 trillion euros in economic value by 2038 (+14.1%) if organisations adopt Gen AI responsibly and at scale.
- **Business:** An overwhelming 96% of European CxOs surveyed by Accenture² believe Gen AI will positively impact their market share. Our research identifies a group of organisations we call “Reinventors”³ comprising just 11% of our global sample that are swiftly executing their strategy to establish a new performance standard with technology as the cornerstone of their reinvention journey. They are twice as likely to anticipate workforce productivity gains of 20% or more in the next three years. By intentionally involving their people in the change, Reinventors are also increasing their chances to reinvent at speed and scale by 1.7x and 1.6x respectively.
- **Human:** Two-thirds of Reinventors strongly agree that Gen AI will make work more meaningful and fulfilling. Technology that is “human by design” can enable people to contribute in new ways while enhancing productivity, creativity and human potential.

ARE WORKERS “NET BETTER OFF” WITH GEN AI?

Gen AI is an opportunity to involve workers in determining how to reshape their work and roles — instead of the change being imposed on them from above. Organisations will need to help workers interact with it as part of their daily routine, and thus adapt to it.

Yet, while 95% of workers in Europe see value in working with Gen AI, they don't trust organisations to ensure positive outcomes for everyone.

In the age of Gen AI, trust hinges on transparency, open communication and listening. And it's up to leaders to create the conditions for people



to feel “net better off” to meet four fundamental human needs that can unlock two-thirds of workers’ potential: market relevant skills, purposeful work, strengthened well-being and a sense of trust.⁴

Our latest research shows that when people feel net better off, they are more trusting, comfortable and ready to work with Gen AI.⁵ The journey towards trust could begin with setting right some misaligned perceptions between leaders and workers that are listed in Figure 1.

Misalignment between workers’ and leaders’ perceptions when it comes to the adoption of Gen AI and upskilling workers.

FIGURE 1

| | |
|--|--|
| 61% of workers say Gen AI could add to their stress and burnout | Only 37% of CxOs see this as an issue |
| 60% of workers are concerned about job displacement | Only 28% of CxOs see this as an issue |
| 60% of workers are concerned about the accuracy of tool output | Only 23% of CxOs see this as an issue |
| 94% of workers want to learn new Gen AI skills, 94% are confident they can | Only 5% of organisations are reskilling at scale and 31% of CxOs are concerned that lack of worker skills is going to hold the organisation back from fully utilising Gen AI |
| 83% of workers say they already understand the tool | 33% of CxOs are concerned workers won’t adopt the technology because they don’t understand it |

It’s up to leaders to close the gap, but our research shows that only 28% of Europe organisations have comprehensive strategies in place to ensure positive worker outcomes and experiences. Based on insights from this research and our experience on 700 client projects, we chart a path for leaders to lead and learn in new ways that revolve around three accelerators: reinvent work, reshape the workforce and prepare workers.

Lead and learn in new ways. Leaders are key to a Gen AI-driven reinvention of work. But are they ready for it? Our research shows they have a long way to go. One in three leaders believe they lack both the technology expertise and the ability to create a compelling change narrative. About 38% have the

skills and capabilities needed to reinvent, 37% have technology expertise and 37% can communicate an inspiring narrative for change. Leaders need to understand where work will change and make choices about how it will change, considering what work they want humans to do in their business and how to make an inclusive and equitable transition for colleagues to new work and new skills. This is a chance for leaders to build on Europe’s heritage of worker rights, good work and social consultation to build trust and dialogue during this period of change.

Some organisations are taking the first steps. Training, coupled with learning in the natural flow of work to create immersive and contextual experiences, is the way forward.

Gen AI is an opportunity to involve workers in determining how to reshape their work and roles – instead of the change being imposed on them from above. Organisations will need to help workers interact with it as part of their daily routine, and thus adapt to it.



PROSPECTS: THE BEST OUTCOMES ARE OURS TO SHAPE

Europe stands at a pivotal juncture, uniquely positioned to lead the Gen AI revolution. The path forward for organisations based here is both clear and challenging. Succeeding with Gen AI starts with leaders who are willing to learn new ways to scale the technology responsibly, create value and ensure that work improves for everyone. Our research, which covers 26 countries (11 in Europe) and 19 industries, shows that an organisation's success in harnessing Gen AI not only relies on a robust data foundation but also on transformative leadership that embraces new learning paradigms.

As leaders, we are lucky if we have one opportunity in our careers to identify a genuine catalyst for monumental change. Gen AI is that opportunity. By leading and learning in new ways, we have the power to create economic and business value in ways that lift people and society, while building the resilience needed to navigate what's next. Ultimately, the question remains: Are business and government leaders prepared to step up and seize this opportunity? 🇪🇺

01 Reinvent work, not jobs. How Reinventors go about reinventing work is telling. Instead of focusing on the job or task, they study the value chain to determine how core processes and work itself need to change. This broader view allows them to reallocate work and change it with the intent of better-serving customers, achieving business outcomes and creating better employee experiences.

02 Reshape the workforce. The speed at which Gen AI is capable of transforming work calls for a nimble approach from both humans and machines. Predictive insights enabled by integrated data across the organisation can play a key role. So can a strong skills architecture to pivot the workforce with agility, matched with equally nimble talent strategies, practices and policies.

03 Prepare workers. As organisations invest in helping workers acquire market-relevant technical skills and the capability to collaborate with machines, they will also need to focus on soft skills. A teach-to-learn model is emerging to equip workers to teach the machines. Along this journey, leaders also need to listen and involve their people at every step of the way to strengthen trust.

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HOW TOP-PERFORMING FIRMS NEEDED TO **REORGANISE SEVEN TIMES FOR DIGITAL**

by Peter Weill & Stephanie L. Woerner

Top-performing firms reorganise several times to effectively use digital to capture value. In a series of CEO interviews, we identified four successful levers for maximising value from digital. Then, in a global survey, we found that the companies in the top quartile of effectiveness on these four levers were also top financial performers, growing 12 percentage points above their industry average, and leaders in innovation, with 45 per cent of their annual revenue coming from new products introduced in the last three years – a huge premium. In this paper, we describe the four levers and the reorganisation required, illustrating with examples including Standard Bank Group, the largest bank in Africa. To become a top performer takes persistence, as companies must perform organisational surgery – reorganising on average seven times to create the industry-leading value. It is like solving an organisational Rubik’s cube, with a big payoff.

How many major organisational changes has your company been through in the last five years, and did those changes create value? At MIT CISR, we studied over 700 companies to understand how companies unlock new digital value.¹ We found that a company must perform organisational surgery, often reorganising many times to create the value. The top-performing companies in our research underwent, on average, 7.2 major organisational changes in the preceding five years, but the results were worth the disruption, as the companies grew well above their industry average.

We found that the companies in the top quartile of effectiveness at using these four levers were also top financial performers, growing at almost 12 percentage points above their industry average, and leaders in innovation, with 45 per cent of their annual revenue coming from new products introduced in the last three years. From the interviews, we learned that taking a top-executive perspective rather than a tech leader perspective can enable the kind of persistence, organisational buy-in,



and change needed to unlock industry-leading digital value enterprise-wide.

In this paper, we describe the four levers and illustrate them with examples from companies including Standard Bank Group and ANZ, and discuss how to move from the technology-led governance to the enterprise-wide governance that is now needed to succeed.

THE FOUR LEVERS TO CREATE NEW DIGITAL VALUE

Historically, organising a company to maximise value from digital started with the technology leader looking out of the IT organisation to understand what the business needed. But in today's world of technology everywhere, it's time to take, first, a CEO perspective and, then, an enterprise-wide one to design the organisation to maximise value from digital. To understand how top-performing companies organise for digital, we began by interviewing eight CEOs of large organisations and then followed up with their colleagues, to learn what organisational levers were used to create new digital value. Four levers to unlocking value emerged. Each of these levers needed to be supported by CEO involvement to drive the

Historically, organising a company to maximise value from digital started with the technology leader looking out of the IT organisation to understand what the business needed.

necessary changes in company and employee behaviour. Then we surveyed executives from 721 companies to understand best practices and the impacts of employing the levers on company performance.

Companies focused on these four levers to unlock new digital value:

1. **Customer:** Identifying and delighting the most important unique customer types.
2. **Capability:** Providing and reusing a shared capability as a service across customer types.
3. **Commercialisation:** Commercialising what the company is great at to generate new revenue.
4. **Component:** Designing, embedding, and reusing digital modules of self-contained business capabilities.

Each lever produced a specific type of value to help drive top performance:

1. **Value from customer – focus:** Customer loyalty and increased revenue per customer via tailored customer journeys and customer focus.
2. **Value from capability – scale:** Consistency and efficiency across different customer types while capturing key data.
3. **Value from commercialisation – new revenues:** New revenues from providing services to other companies based on what the company is great at.

4. Value from component – speed via reuse: Faster time to market using best practices and decentralised governance with better compliance.

Let's go into more detail on each of the levers.

IDENTIFYING UNIQUE CUSTOMER TYPES



To unlock new digital value from customers, a company's senior executive team must first identify their set of unique customer types to focus on, describing each type's persona, customer journey, data model, channels for engagement, and more. In financial services, customer types typically include home buyers, small business enterprises, corporations, and high-wealth individuals and families. Developing an understanding of its most important customer types helps a company to really empathise and focus on meeting customer needs. The top-quartile performers on growth focused on an average of 8.9 unique customer types, typically describing for each type how they preferred to engage with the company, the typical products and solutions needed, the kinds of offers found attractive, and the associated data profile and systems that made the customer journey easy. In our interviews, CEOs reported that each customer type needed a senior executive who had both decision rights and accountability for success and, increasingly, customer journeys were supported by providing curated access to complementary and partner service providers.

DRIVING A SHARED CAPABILITY AS A SERVICE



Leveraging business capabilities as a shared service helps a company to generate speed and efficiency. Here, senior executives must first identify what

capabilities are common across customer types. Standardising, automating, branding, and reusing these capabilities allows the company to drive consistency, which both provides the customer with a common experience across products and increases efficiencies for the company. Shared capabilities can lead to better insights, because the data collected is more consistent and in one place. For example, a key shared capability in banking is a unified customer profile that details a customer's current assets, products, and a forecast of their

future needs, along with their identity, credit score, risk tolerance, and other factors.

The top-quartile growth companies provided an average of 6.3 separate business capabilities as a service across (almost) all their customer types. Because this lever can be hard to implement politically, as they were often centralised, top performers were selective about which services to share

across customer types, thereby ensuring that the services were strategically important and there were a manageable number.

Digital modules are “atomic” business capabilities, in that they are fully self-contained and right-sized. They are fine-tuned, automated, and reused in every possible application in the company, and nurtured by their owners to ensure they maintain best practice.



COMMERCIALISING WHAT THE COMPANY IS GREAT AT

The top-quartile growth companies selected internal capabilities they were great at – their crown jewels – and commercialised them as a service to produce a new revenue stream. This anything-as-a-service model, which we call XaaS, is becoming an important growth area for many companies as digital connections between companies become easier. Examples of XaaS that some banks have developed include anti-money-laundering (AML), payments, know your customer (KYC), and foreign exchange (FX). Often, such services are essentially selling compliance as a service, allowing the company to derive more value from its own efforts to address increasing compliance costs and create increasing scale.

Australian bank ANZ has recently focused on providing XaaS in areas including international payments and anti-money-laundering (AML). ANZ CEO Shayne Elliott described the bank's AML efforts:

We saw one major player exit this business as a result of some AML issues, which meant their customers had sixty days to find another provider. Of those, there were seventeen major mandates and we won sixteen of them. That took our [AML] market share from the low 40s to 58 per cent.²

In our top-quartile companies on growth, an astounding 56 per cent of revenues were generated using the XaaS approach, unlocking a lot of previously untapped value.

EMBEDDING, NURTURING, AND REUSING DIGITAL MODULES

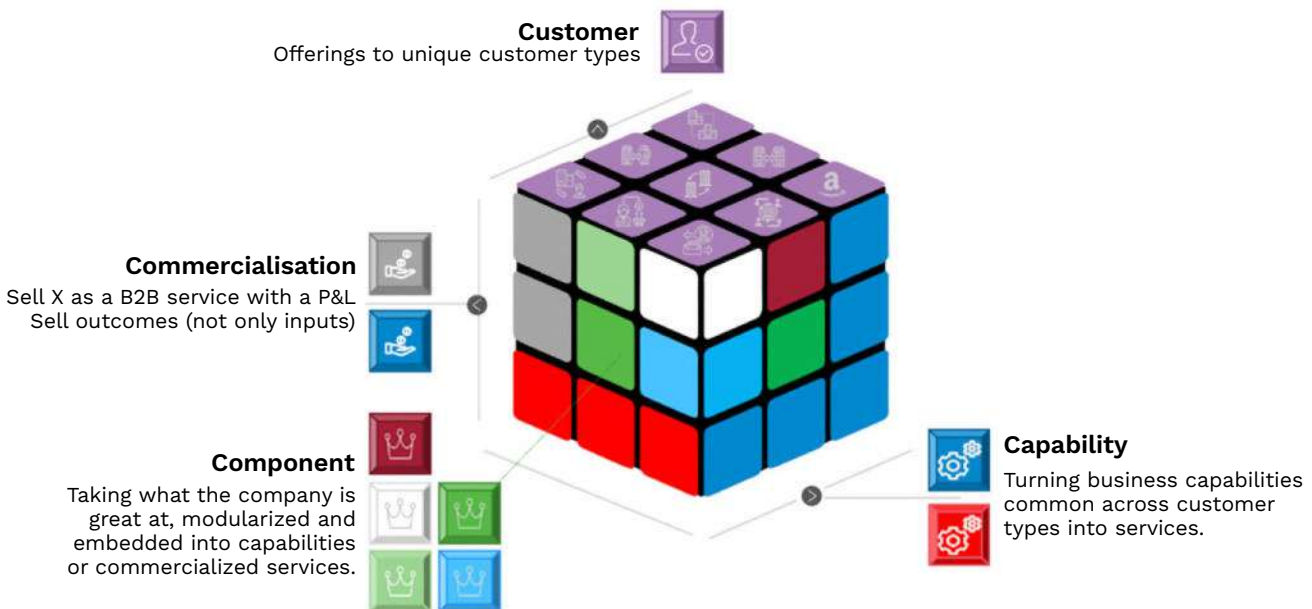


Embedded digital modules, sometimes called components, create new digital value for the company by driving consistency, compliance, and

speed to market. Digital modules are “atomic” business capabilities, in that they are fully self-contained and right-sized. They are fine-tuned, automated, and reused in every possible application in the company, and nurtured by their owners to ensure they maintain best practice.

In financial services, typical examples of such modules are establishing the customer identity, onboarding a new customer, establishing or accessing a customer's credit score, assessing risk, assessing compliance, and many other often-reused business capabilities. Often the motivation for these modules is to increase speed to market of different groups, while meeting compliance with regulations via consistency of approach and common reporting. Modules are built into the other three levers – customer types, shared capabilities, and XaaS – as well as other opportunities for reuse. The top-quartile companies on growth were 80 per cent effective at digital module reuse, improving their time to market and helping to generate an industry-leading percentage of revenues from new products introduced in the last three years.

Organizing for the 4 drivers of value from digital? - Solving the organizational Rubik's Cube



Source: MIT CISR researcher interpretation



Once a company has identified which business capability to modularise, it typically uses decentralised governance and APIs or some other kind of digital service to create the module and share it easily.

TOP PERFORMERS ON GROWTH AND INNOVATION USED ALL FOUR LEVERS EFFECTIVELY

Companies that were more effective at using the four levers individually grew faster than their peers. And the companies that were in the top quartile of effectiveness of all four levers combined grew even faster, at 11.7 percentage points above industry average.

Standard Bank Group, the largest financial services group in Africa,³ has used all four levers to unlock new digital value as part of the bank's digital business transformation.

UNLOCKING NEW VALUE AT STANDARD BANK GROUP

In its strategic transformation plan, Standard Bank Group describes serving the needs of clients in financial services and beyond by “banking the ecosystem” – i.e., providing financial services in all the ecosystems the bank is targeting. Behind this vision is Standard Bank's inspiring purpose: “Africa is our home, we drive her growth.”⁴

The bank started by focusing on three client segments (**Customer**): consumer and high-net-worth clients, business and commercial clients, and wholesale clients. It identified client acquisition and engagement as the drivers for sustainable growth. The bank also initially targeted 10 ecosystems to

operate in (**Customer**) – five that it would drive, such as agriculture and trade, and five that it would participate in, such as energy and education. It has since narrowed its focus to ecosystems where it is able to achieve the most competitiveness, including trade and home services. Standard Bank's participation in an ecosystem typically involves offering B2B financial services the bank is great at (**Commercialisation**), such as FX and payments.

We found that in a digital / AI everywhere world, companies should rethink the traditional model of the technology organisation.

To enable shared capabilities as a service (**Capability**), the bank created a new group, called Client Solutions, that serviced the client segments with banking, insurance, and investment services. However, as the transformation progressed, the bank found that it was more efficient to provide these services within the client segments and reverted the segments to being more traditional business units.

Finally, a great deal of effort went into architecting modularity (**Components**). Standard Bank's modularity relies on standardisation and simplification, as well as the technological capability to connect both internally and with partners, enabled by API readiness and integration and scalable and interoperable platforms. The bank calls developing modularity in this way "unpacking the honeycomb", and tracks the number of digital solutions as a percentage of total solutions it has achieved. In 2021, 24 per cent of the bank's banking solutions and 22 per cent of all solutions were digital solutions, and it was aiming for a target of 50 per cent across all solutions by 2025.

Standard Bank is making great progress toward its transformation goals, with the bank's 2022 results demonstrating record revenue and earnings.⁵ The positive impacts continue in the first half of 2023, when the bank's cost-income ratio (a common

measure of efficiency) improved from varying between 55 and 58 per cent over the previous 10 years to 50.5 per cent.⁶

THE IMPORTANCE OF LEVER GOVERNANCE IN UNLOCKING VALUE


To unlock its value, each lever needs to be governed and nurtured differently (*see figure 1*). The Customer lever is typically owned and governed by business unit heads with responsibility for engaging each customer type. The governance of the Capability lever, because it spans different customer types, is typically owned centrally by a shared services group, COO, or CIO who operates those services for the rest of the company, perhaps on a chargeback basis. We have also seen leader-follower models, where one business unit takes the lead on a particular service and then provides it to the other business units. The ownership of the Commercialisation lever frequently belongs to a combination of people who sell business-to-business solutions and the specific business service owner (e.g., payments), often using a two-in-a-box model.⁷ Finally, components are typically owned and governed by the business owner of the business capability embedded in the component, such as risk management (owned by the head of risk), know your customer (the head of compliance), credit scoring (the CFO),

Figure 1: The Four Levers to Unlock New Digital Value

| LEVER | DESCRIPTION | VALUE | GOVERNANCE |
|-----------------------------|---|--|--|
| 1. Customer | Identifying unique customer types | Delivering tailored customer journeys | Business unit head |
| 2. Capability | Driving a shared capability as a service across customer types | Generating consistency and efficiency | Shared services head, CIO, or COO |
| 3. Commercialisation | Taking what the company is great at and developing a new business | Creating new revenues | Seller of the business-to-business solution and the specific business service owner (i.e., two-in-a-box model) |
| 4. Component | Nurturing and reusing digital modules of self-contained business capabilities wherever possible | Moving faster to market using best practices | Owner of the business capability embedded in the component |

or payments (the head of the payment service), often in partnership with a technology leader.

THE KEY TO REALISING VALUE FROM THE FOUR LEVERS

We found that in a digital / AI everywhere world, companies should rethink the traditional model of the technology organisation. Instead of taking a technology-led perspective, we recommend taking the CEO, enterprise-wide perspective on designing the technology capability to unlock maximum value from digital. To be a top-quartile growth company in the digital era requires focusing on four levers to create digital value. But companies must iterate several times to get the levers to work together to unlock that value. And they have to implement an ownership and governance model that encourages nurturing and reuse of the four levers. They also need very good real-time metrics that measure the effectiveness of the levers, their impact on performance, and the capabilities needed to deliver them, shared widely via a dashboard. Finally, they need the support and vision of the CEO and top management team, along with the board, to help exploit the levers throughout the company. It is like solving an organisational Rubik's cube with a big payoff. 

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PLATFORM THINKING:

what established firms can learn
from Big Tech and digital start-ups

by Daniel Trabucchi
& Tommaso Buganza

The platform revolution has already taken place, but we link the idea of platforms with Big Tech like Amazon or Meta and digital-native start-ups like Airbnb and Uber. In this article, we explore the concept of Platform Thinking, perceiving platforms as a tool to foster digital business transformation for established firms like Telepass, John Deere, and Klöckner.

Over the last two decades, the business landscape has changed radically. We can prove it easily with two lists:

2003: Microsoft, General Electric, ExxonMobil, Walmart, Pfizer, Citigroup, Johnson & Johnson, Royal Dutch Shell, BP, IBM

2023: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, Tesla, Berkshire Hathaway, Eli Lilly, TSMC

These are the 10 companies with the highest market capitalisation in 2003 and 2023¹. We can get three main insights by comparing the lists: only one company remained in the Top 10 two decades later (Microsoft), and the industries had shifted quite clearly from product and energy companies to tech companies. Finally, of course, five out of the 10 companies in 2023 are “platform companies”.

The Big Tech MAGMA (Microsoft, Apple, Alphabet-Google, Meta, and Amazon) established their leadership by applying platform models and became, along with “younger giants” like Airbnb and Uber, flagship cases of the platform revolution. But what are platforms? Can we really compare these companies under the same label? And, more interestingly, is it all a matter of digital native companies? How can established – non-digital-native – companies exploit platform thinking and leverage the learning from (younger) digital companies?

WHAT IS A PLATFORM?

The question “what is a platform?” is not an easy one to answer. We recently wrote a book, *Platform Thinking*, which dedicates entire chapters to the peculiarities of the various typologies of platforms. Let’s start by defining what a platform is not. Not every value-creation mechanism based on a **linear value chain** is a platform. Porter described the linear value chain as a sequence of primary activities to transform raw materials from suppliers into finished products for the market, plus all the other activities needed to support these primary ones (e.g., training or hiring). This model easily applies to product

or service companies such as General Electric, Johnson & Johnson, FedEx, and many others.

However, if we look at the aforementioned MAGMA cases, this definition doesn’t seem able to fully describe their value-creation mechanisms. We need to introduce the concept of platform (and, more precisely, different typologies of platforms) to describe their value-creation mechanisms.

Microsoft (and, more precisely, the Windows operating system) is the typical case of an **innovation platform**² – and, indeed, one of the very first of these. Innovation platforms are technological systems open to two different customers: computer users on the one hand and “complementors” on the other. Complementors are organisations or individuals that can foster innovation on top of the platform, delivering their own products to the end users. In other words,

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Microsoft offers Windows to the final users but, at the same time, it offers its APIs and software development kits to software developers who wish to code on top of the operating system. In a nutshell, both the end users and the software developers (like Adobe or Autodesk) are customers in Microsoft’s eyes. Moreover, innovation platforms are subject to the so-called bidirectional cross-side network externalities³: the more users, the more value for software developers, and vice versa.

Amazon is a different and very varied case. It started off as a linear value chain company delivering books and, even now, still has important



Motorway barrier payments lines in Italian highway with Telepass tollgates.
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revenue sources managed as linear value chains, like AWS^{4,5}. However, if we focus on the Amazon Marketplace, we can see a perfect case of a **transactional platform**^{6,7}. We are clearly customers any time we log on to Amazon Marketplace to buy anything we need, from a book to a stabiliser, and we correctly perceive the merchant selling the stabiliser as a provider. From Amazon's point of view, though, there are no customers and providers, but only customers and customers. People buying any product on Amazon are obviously customers, but companies selling those products are also Amazon's customers. They receive the chance to reach one of the widest potential markets in the world, a delivery service, payment services, and much more. To underline their customer role, the sellers pay Amazon a fee for each product sold (if they were providers, they would be paid instead).

In this case, the platform is not the basis upon which to develop new and innovative products but rather an enabler of one-to-one transactions. There are two customers (buyers and sellers) and, again, bidirectional cross-side network externalities that make this platform so valuable; the more buyers, the more potential value perceived by the sellers, and vice versa.

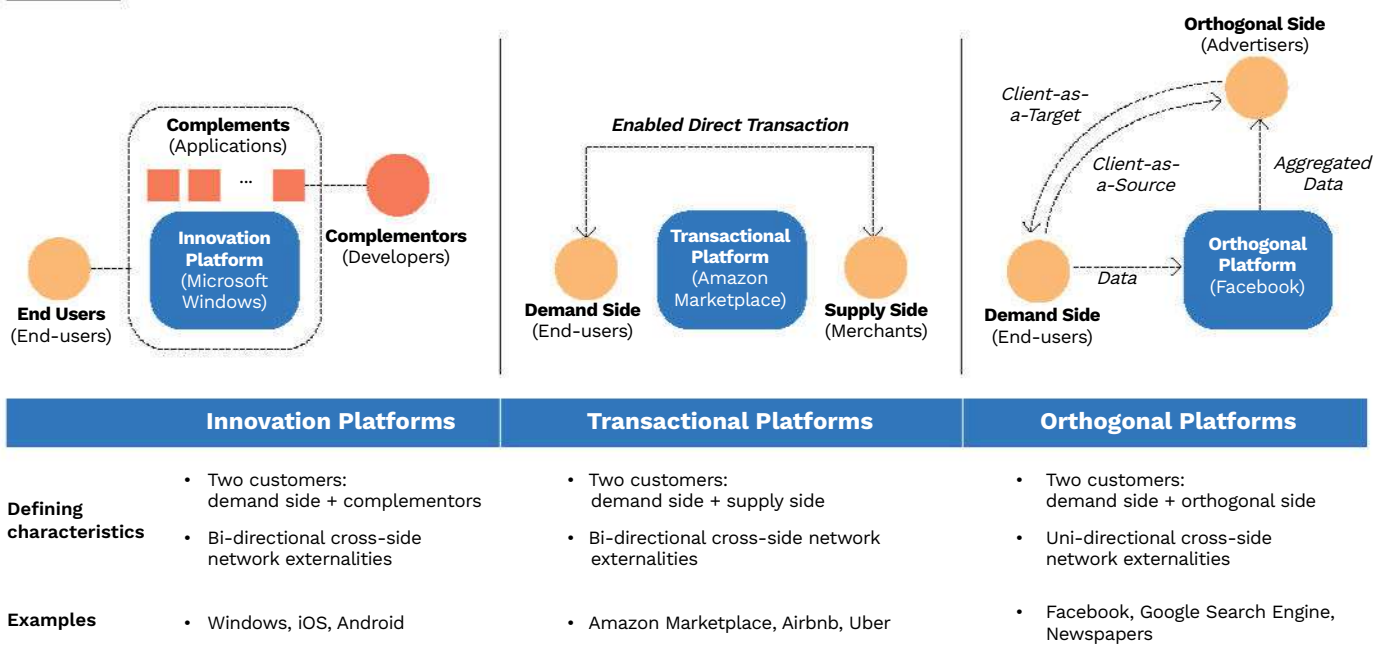
Key features that allow us to define the concept of the platform: 1) the presence of two (or more) groups of interdependent customers and 2) the presence of cross-side network externalities that drive the growth and potential scale of platforms.

Meta is the last platform typology we present. The reason we consider Facebook, as well as Instagram by Meta, a platform is mainly the presence of advertisers. Advertisers pay Facebook to reach as many viewers as possible and target them with incredible precision, thanks to the data generated by the users themselves. This makes Facebook an **orthogonal platform**^{8,9}. As in the previous cases, there are two customers (the end users and the advertisers) but, here, there is not a one-to-one transaction. On the contrary, the second side, the advertisers, see the first side as both a target for commercial purposes (but the transaction will happen somewhere else) and as a source of valuable information to target them more accurately. There are still externalities, but only unidirectional; the more end users, the more value for advertisers. The other way around (more advertisers, more value for end users)

is just not verified.

These three non-linear value-creation mechanisms are very different, but they share two key features that allow us to define the concept of the platform: 1) the presence of two (or more) groups of interdependent customers and 2) the presence of cross-side network externalities that drive the growth and potential scale of platforms.

FIGURE 1 The main typologies of platforms



(NON-DIGITAL-NATIVE) ESTABLISHED FIRMS FOSTERING INNOVATION THROUGH PLATFORM THINKING

So far, all the examples we have provided are Big Tech and / or digital-native start-ups mainly headquartered in Silicon Valley.

However, it would be a big mistake to think that these are the only companies that can benefit from platform-based value-creation mechanisms.

With the concept of “Platform Thinking“, we refer to the ability to foster innovation by seeing possible platform mechanisms everywhere. It might seem strange but, once unlocked, the platform way of thinking can foster innovation even in established, industrial, non-digital companies, as in the cases of Telepass (Italy), John Deere (USA), and Klöckner (Germany).

Telepass and Telepass Pay

From 1989, Telepass, once incorporated into Autostrade per l'Italia, the Italian motorway company, revolutionised the driving experience with its automated toll collection system.

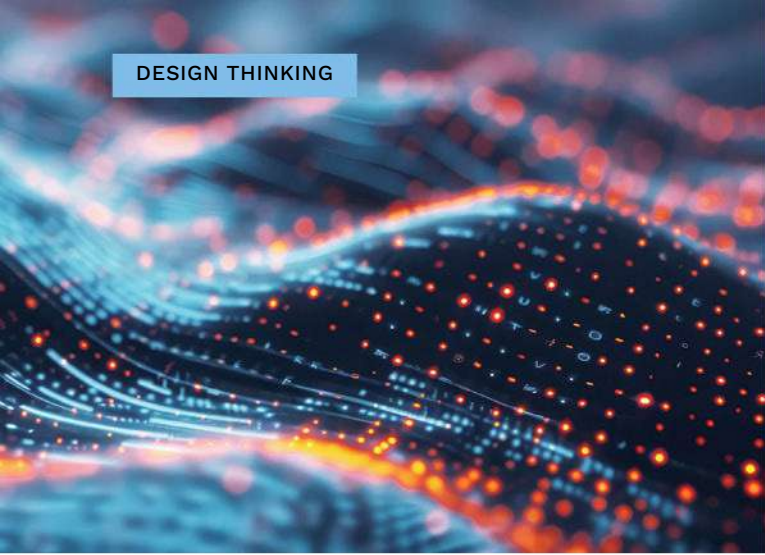
The system enabled motorists to glide through toll stations, offering a seamless journey without the “stop and go” of traditional toll booths. Telepass is an example of how platforms can revolutionise the entire company's value-creation mechanism¹⁰.

Initially, the Telepass service was a typical linear value chain, directly linking the company to the customer through a unique service offering.

This all changed in 2017, when Telepass expanded its horizons with the launch of Telepass Pay, a multiple-service smartphone

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app based on a transactional platform mechanism. Now, drivers could pay not only for tolls but also for parking, fuel, and even car services like washing or maintenance through a unified system. The introduction of Telepass Pay brought in additional customer groups – parking facilities, fuel stations, and service providers – and transformed Telepass into a platform enabling service transactions between them and drivers.

This strategic move turned Telepass into a multi-sided transactional platform leveraging cross-side network externalities; the more drivers, the bigger the value for service providers, and vice versa.

A start-up wanting to introduce a similar platform would encounter the so-called “chicken and egg” paradox: drivers are attracted by service providers who are attracted by drivers, but none of these sides are on board at the beginning. On the contrary, when launching Telepass Pay, Telepass already had 8 million users from the linear value chain service (toll payment) and had no paradox to face.

John Deere and the Operations Center

John Deere, founded in 1837, is well known for producing heavy-duty agricultural machinery. It's an example of how incorporating Platform Thinking can extend the value-creation capabilities of a traditionally product-centric company relying on data¹¹.

Initially, John Deere made its machinery “smart” by integrating sensors, GPS, and AI.

Besides the obvious challenges of changing corporate culture, John Deere was able to leverage its brand, know-how with regard to agricultural equipment, and presence in approximately one-third of American arable acres. A start-up could hardly match these assets.

Farmers used these sophisticated tools to collect detailed data, enhancing their agricultural productivity through “MyJohnDeere”. This smart equipment represented an advanced linear value chain, optimising activities like seeding and fertilisation through real-time data.

The transformative moment came when

John Deere began seeing farmers not just as equipment users but as data providers. In 2013, Deere opened up MyJohnDeere through its “Operations Center”, a platform providing aggregated and anonymised farmers' data to a number of third-party providers. This shift added a two-sided model with network externalities to the traditional linear value chain of the company (the production of heavy-duty agricultural machinery).

Previously, farmers used John Deere's system to optimise seed planting. Transitioning to a platform model, John Deere managed to enable entities like Bayer to access a wealth of anonymised agricultural data. Bayer might analyse this data to create advanced seeds or fertilisers tailored to the identified conditions, establishing a feedback loop where farmers, utilising these products, enhance the platform's collective intelligence.

This strategic move transformed John Deere into an orthogonal platform, allowing third parties to innovate using the aggregated data. It not only amplified the farmers' capabilities but also catalysed a network effect, broadening the

platform's scope and attracting new participants to this knowledge-rich ecosystem.

Besides the obvious challenges of changing corporate culture, John Deere was able to leverage its brand, know-how with regard to agricultural equipment, and presence in approximately one-third of American arable acres. A start-up could hardly match these assets.

Klößner and XOM Materials

Klößner is an independent German producer-distributor of steel and metals. It operates between the big crude-steel suppliers, such as ThyssenKrupp and Tata Group, and the customers, such as construction companies, car makers, and phone and appliance manufacturers.

In the last decade, they have revolutionised a long-lasting and hard-to-change market with two moves.

In 2014, Klößner launched Kloeckner Connect, a digital service allowing customers to make orders from any device, check on past orders, see what's available in stock, look through the entire Klößner catalogue, and place online custom orders. Although this represents a major innovation in the market, we can still consider it to be a (digital) linear value chain service.

The game-changer came with the launch of XOM Materials in early 2017. XOM is a transactional platform where Klößner's customers (later joined by many others) form the demand side, and the supply side is enriched not just by Klößner's products but also by offerings from various third-party vendors, competitors, and service providers^{12,13}.

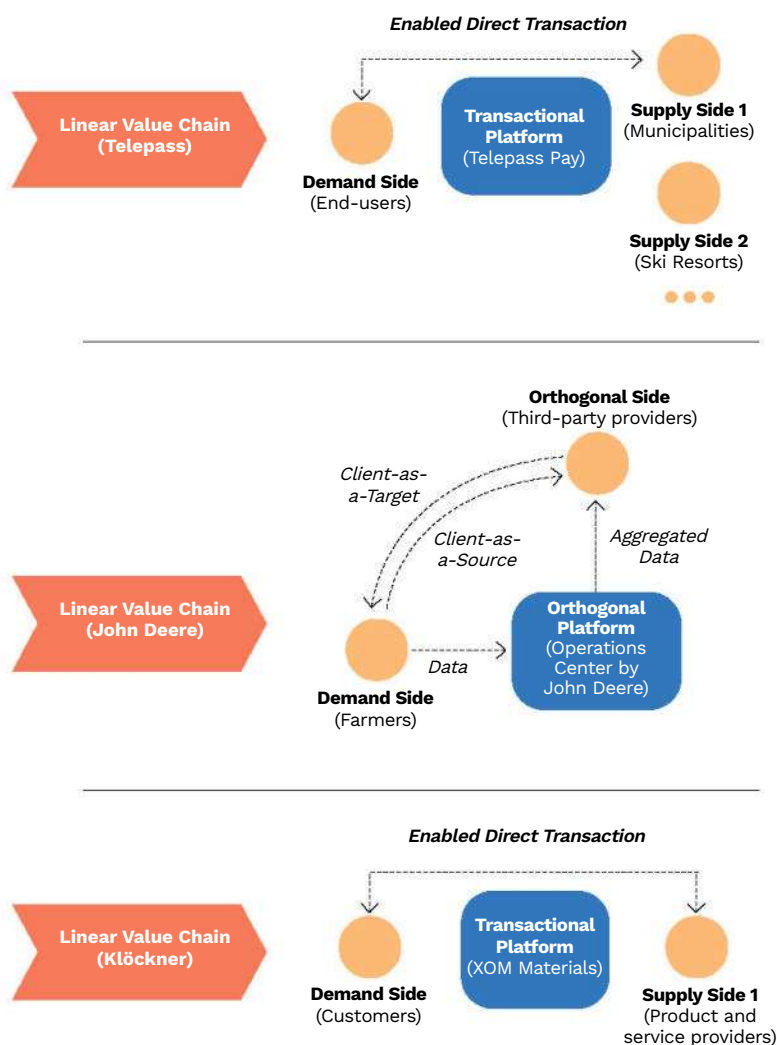
This strategic move turned them from a metal producer and distributor into one of the leading steel service centre companies worldwide.

XOM Materials leveraged Klößner's established assets, like their extensive customer network, to generate cross-side network externalities. As more customers and suppliers joined, the value and efficiency of the network grew for all, demonstrating the potential of established companies to pivot into a transactional platform model even more successfully than start-ups.

TAKEAWAYS FOR PLATFORM THINKERS

These six stories let us define platforms (Microsoft Windows, Amazon Marketplace, and Facebook) and how platforms can help established firms foster digital business transformation (Telepass Pay, Operations Center, XOM Materials).

FIGURE 2 Telepass Pay, Operations Center by John Deere, and XOM Materials by Klößner as cases of Platform Thinking






At this point, we can leave behind the usual preconception about platforms. They are not just for digital native start-ups or Big Techs. We can, indeed, define Platform Thinking as the ability to use platform-based mechanisms to unlock digital business transformations¹⁴, and unveil the three key insights of this article:

1 “Platform” is a broken word. We need more labels – like “innovational”, “transactional”, and “orthogonal” – to capture the complexity of the value creation models around us.

2 Platforms are for everyone. Established traditional companies based on a linear value chain can also leverage Platform Thinking to foster digital business transformation.

3 Platform Thinking builds on established firms’ idle assets (like data, customers, brand, or existing relationships), opening avenues for value exploitation and innovation. 

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Companies are starting to understand why it is important to cultivate curiosity among their workforce. Yet, only a few possess a good grasp on how to activate, embed, and leverage it throughout the organisation. In this article, we propose a practical, human-centric approach to help managers design for, lead with, and operationalise curiosity in the workplace.

HOW TO PUT **CURIOSITY** TO WORK IN YOUR ORGANISATION

by Louise Muhdi

How many times have you heard recently of an organisation or a process that is due for reimagining, rebuilding, or future-proofing? We live in a time where organisational wisdom has shifted from a company's sum of experience and expertise to a willingness to open up, to be flexible, and to play with the boundaries of how we see the world and our place in it. Underpinning this pursuit of how things *could* be and possibly *will* be is curiosity — organisational and collective, as well as individual.

Indeed, curiosity is seeing a renaissance, particularly across innovation-focused industries such as pharma, tech, and media. Corporations including Merck, Nike, Disney, Target, GE, NASA, Novartis, Facebook, the LEGO Group, Microsoft, and Dell have recognised and established curiosity as a key component in their corporate branding. For a company to be seen as curious has become a ticket to higher quality of investor relations, recruitment, and talent retention.

In writing this article, I drew on a long-term dialogue with corporate champions of curiosity in the workplace, as well as discussions with executive education programme participants across industries. I coupled their input with years of experience in conducting experimental, action-oriented problem-solving modules and interventions for large businesses.

Based on this ongoing research, I propose that unlocking an organisation's curiosity can deliver a host of fundamental benefits. In this age of disruption and large-scale organisational transformations, it can enable rapid adaptability. Curiosity can also be that key ingredient that wards off a return to complacency and protects employees from transformation fatigue and burnout. On the innovation front, an outlook of curiosity about others will spur collaboration within ecosystems as gateways to value creation and solving complex challenges.

Nonetheless, there are several factors at play that make embracing curiosity an uphill battle



for companies. To start with, we have yet to reach a standard definition of what curiosity in the workplace looks like. In its place, misconceptions abound: of curiosity as a distraction, unless demonstrated by those at the very top; a general willingness to ask questions but not much more than that; or a quality that only comes in handy in creative occupations like product design.

Meanwhile, businesses' traditional reliance on experts means that curiosity goes into a decline the minute we have convinced ourselves that we have all the in-house expertise we need. As a result, what could be a critical business skill and a key driver of growth, innovation, problem-solving, stronger leadership, and rapid adaptability in the workplace is often regarded as a nice-to-have soft skill.

For a company to be seen as curious has become a ticket to higher quality of investor relations, recruitment, and talent retention.

OPERATIONALISING CURIOSITY IN YOUR ORGANISATION: WHERE TO START

Curiosity is an innate human quality. Researchers have pointed out that cognitive needs are just as fundamental as physiological and social needs. In other words, just as we cannot go without food, in many situations we cannot bear not to know what's out there, who we are dealing with, what happens next. See how skilfully this instinct has been co-opted and ritualised by social media companies. It is what makes us click and swipe and scroll through the mass of unpredictability that is online content.

The difficult part is that curiosity as a concept tends to defy a firm grasp. Its emotional roots make it prone to outbursts which flare up one minute and dissipate the next. The key challenge has to do with connecting these into a more malleable and predictable continuum. Fortunately, we can take inspiration from industry frontrunners who have made heavy

bets on transmuting the power of being curious into a tangible value, process, methodology, and organising principle. In dozens of interviews with talented executives, I have identified the following design principles:

1 Nurturing the mindsets is great – but your best bet is to actively shape behaviours

Many executives labour under the assumption that simply by talking about curiosity or writing it into vision and mission statements, it will trickle down to form a part of employees' day-to-day work. The reality is, of course, much more complex and stubbornly non-linear. Neither is building curiosity about "fixing" people in order to make them more curious, or simply encouraging them to ask questions, no matter how probing and incisive.

Curiosity is anchored in what scientists call neuroplasticity, the brain's ability to reorganise and rewire itself in response to learning, experiences, and environmental influences. "Action" is the operative word in this context. It is predominantly as a result of action and



movement that the brain responds to challenges and creates new neural pathways. Nurturing curiosity requires a steady infusion of new, on-the-job tasks, challenges, experiences and, at times, even introducing a healthy degree of controlled instability.

Therefore, a simple act of physically moving things and people around can be a good start.

Branding and community expert Patrick Hanlon described it as follows: *Scramble the desks, force people to regroup and continually rewire their brains to know more. Encourage lateral or associative thinking by rubbing together different groups, cultures, skill sets, and department silos.*¹

An online (virtual) intervention guarantees a wide reach against a low cost. Norway's state-owned renewable energy player Statkraft has learned that short-burst, online collaborative problem-solving modules can stretch its workers' traditional engineering mindset.² DBS bank in Singapore runs regular hackathons where innovation managers share concepts and practices of innovation with their colleagues. For your company, choose whatever mix of social and tech-enabled formats is likely to grab your employees' attention and motivation.

Stimulating curious behaviours can also be a gateway to collective learning and inclusivity. Much too often, the way companies traditionally relied on experts and expert knowledge has kept workers "in their place" and reluctant to demonstrate natural curiosity beyond their own expertise. In today's age of uncertainty, where advances in technology have nearly obliterated the idea of established expertise, structured curiosity exercises and interventions can place people in a zone where there is something new to be learned and where their input is desired, acknowledged, and rewarded.

Managers at Merck have shared with us stories of lab technicians who were, possibly for the first time ever, emboldened to speak up and share insights that proved essential for rethinking and redesigning a specific innovation process. The stories reflect the reality of the mainstream workplace where bureaucracy and hierarchy have been corrosive of curiosity. In



Image source: www.merckgroup.com

With a history of 350 years, science and technology giant **Merck** has been known for continually reinventing itself and actively sorting through ingredients that make a business survive and thrive for centuries. Innate curiosity was behind some of Merck's most revolutionary inventions and growth junctures, such as perfecting the technology of liquid crystals. In the past six years, Merck has built on this tradition to reassert "who we are" and "what we stand for". The company started upholding curiosity in its communications, marketing, and branding. The underlying business case was one of "More curiosity creates more innovation."

Once the buzz was in place, employees demanded to see tangible manifestations of curiosity in their day-to-day work. Merck set about understanding, defining, visualising, and enabling curiosity in the workplace, developing assessment tools, running a pilot initiative, and applying its learning points to individual employee level. Working with occupational psychologists and curiosity specialists, Merck sought to conceptualise and formulate specific tactics to shape and automate behaviours; to determine the psychological needs that informed the intended behaviours; and to highlight, make conscious, and strengthen these links through training modules. In aggregate, Merck has achieved breakthroughs in shifting curiosity from a state of mind and a branding attribute to concrete tactics, a process, and a way of thinking and working.

the 2018 edition of Merck's "State of Curiosity" survey, 64 per cent of the 3,000 respondents reported grappling with barriers to curiosity and innovation in the working environment, such as a lack of communication with colleagues outside of their own team and working under strict supervision.³

In many organisations, teams approach problem solving by brainstorming, typically

starting with a clean slate. Merck employees learned that there was a better way. By tapping into the diversity of a team's potentials and behaviours with regard to curiosity, their teams' interactions turned out to be more creative and productive. In particular, they realised that curiosity could give creativity an organic boost by linking different ideas better, i.e., using a colleague's idea as a stepping stone to the next idea – "Yes, *and...*" rather than "Yes, *but...*".

Amid complex transformations, employees are told to have trust in the big plan – trust that the change will pan out well and bring the organisation to the desired business outcomes. This is where behaviours that build on curiosity can go a long way. People believe because they have seen outcomes of their new behaviours. They also observe and mimic others. Actions coalesce into habits and are eventually automated. When it comes to curiosity, the magic of action is that it often precedes motivation. Pedro Guerrero, Senior Global Project Manager for Merck Life Science and a participant in Merck's *Activate Curiosity* pilot programme, observed: *People's motivation received a big boost. They realised that the company was walking the talk. As if saying, we want to be innovative, we are a curious company, and*

we want to invite you and give you the opportunity as well as the tools to contribute.

Nurturing curiosity requires a steady infusion of new, on-the-job tasks, challenges, experiences and, at times, even introducing a healthy degree of controlled instability.

2 Curiosity needs to be prioritised and architected into your organisation's systems and processes

Channelling curiosity in productive ways requires what most channelling does: dedicated dimensions of time and space. One-time events make for good publicity. But connecting curious behaviours in a deliberate way, through team interactions in controlled environments, around meaningful work, and repeating these over time can yield so much more. Companies can use it to construct a workable long-term framework of continuous learning, collaboration, and innovation. In the words of Christine Blum-Heuser, Senior Manager for Brand Communication at Merck, who spearheaded several of the company's initiatives in this space: *Instead of something vague and inchoate like a state of mind, we soon started to think of curiosity as a process – and from there on, as a framework, not only for solving problems but for effectively navigating the entire process of exploration, R&D, and ultimately innovation.*

We could consciously channel curiosity to create something new and impactful in the organisation.

When Merck launched its *Activate Curiosity* programme in 2019, it ran a six-month pilot. It involved 133 people in 10 groups – a mix of intact and cross-functional as well as virtual teams representing a diversity of Merck's business segments and key markets. Team members completed a "State of Curiosity" survey (similar to the 2018 and 2020 surveys) in order to





understand their curiosity profiles and the curiosity dimensions they could improve upon. Each group was assigned a business innovation challenge to work on.

Crucially, extrapolating from the pilot, Merck succeeded in instituting specific behaviours and routines into its “new normal” ways of working. Among these, curiosity serves as the underpinning of Merck’s key behaviours such as discuss, disagree openly, decide, deliver (“4Ds”), which have been putting down roots as “the way we do

Processes and mechanisms that enhance curiosity include personal ownership of projects, using instruments of one’s choice to accomplish tasks, and having sufficient time for exploration.

things around here” – in other words, the unique Merck culture. Furthermore, staff are actively encouraged to call out actions and behaviours that go against the grain of these practices.

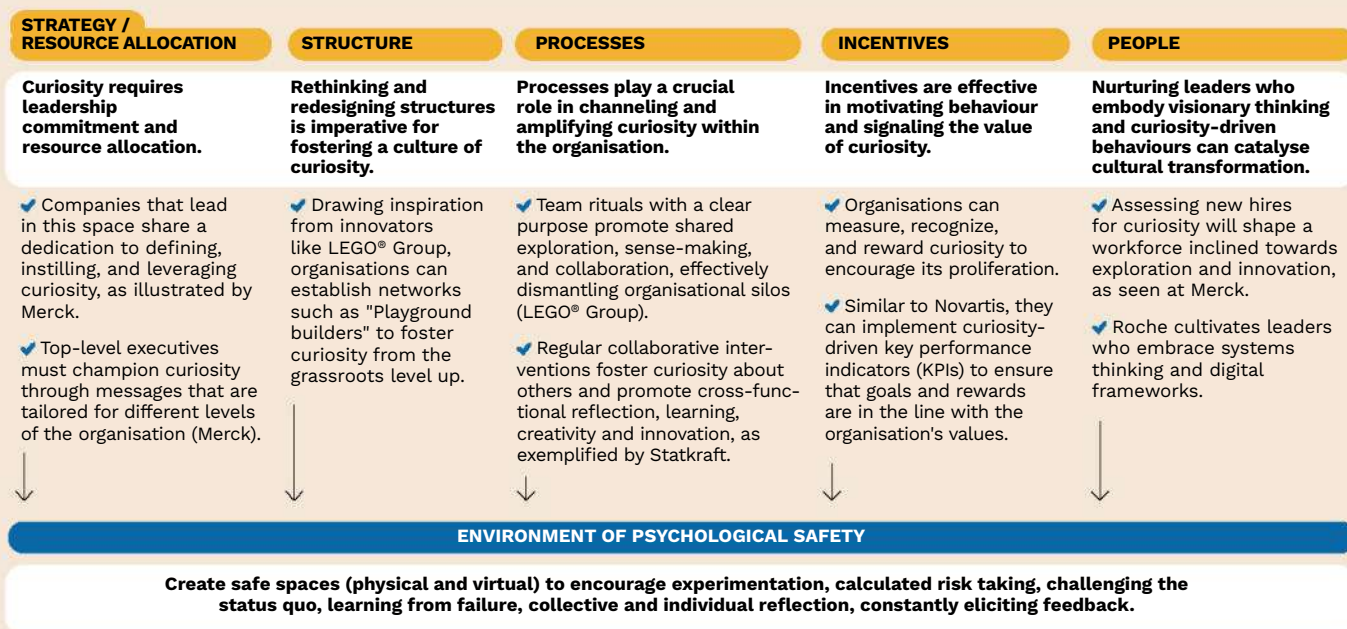
As a shortcut, think about embedding curiosity and the related behaviours in the standard levers of organisational change (see *Figure*). On the people front, companies like Roche have gone to great lengths to install leaders who exhibited systems thinking and a holistic perspective on healthcare delivery in local markets. These

executives see themselves as connectors (Roche talks about Visionaries, Architects, Coaches, and Catalysts), rather than leaders in the hierarchical sense. Similarly, recruiting young people can be a powerful conduit for infusing curiosity into the company. Staff surveys conducted at Merck showed that young hires were by far

the most curious cohort within the workforce.

Processes and mechanisms that enhance curiosity include personal ownership of

FIGURE Action priorities and next practices



projects, using instruments of one's choice to accomplish tasks, and having sufficient time for exploration. Likewise, measuring and rewarding behaviours and outcomes linked to curiosity can be done in simple ways. You could start tracking the percentage of staff that come forward with new ideas. Indirect indicators like staff engagement and satisfaction can also be tweaked to gauge whether employees are finding outlets for their curiosity in day-to-day interactions and processes. Additionally, companies that have been the leaders in curiosity have encouraged their people managers to pick a specific behaviour underpinned by curiosity, complete related tasks throughout the year, and ground them in solid KPIs. Top leadership at Novartis has been explicit about setting a goal of people spending 5 per cent of their time or 100 hours a year on learning, curiosity, and development.⁴

3 Curiosity is contagious: Empowering people through repeated practices

In any type of short-burst problem-solving intervention, game, or other team activity, curiosity – and, by extension, trust in one's collaborators – is typically heightened within a couple of hours. People are empowered to speak up, make comments, and share observations. Working against time, ramping up one's concentration, and focusing on solving a real-world problem; in tandem, these parameters work like a crucible that melts away hierarchy along with personal insecurities, rivalries, and office politics.

The systematic approach can be enriched with informal, loosely structured experiences. These are important, because the curiosity muscle will atrophy without use. Practise, repeat, keep experimenting and expanding through small steps – ideally in an environment of psychological safety where team members obtain a sense of connection, develop deep trust of their peers' intentions, become comfortable with taking risks, and learn to move on constructively from things that didn't pan out.

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In 2018, the **LEGO Group** introduced three core behaviours of Brave, Curious, and Focused as part of its bottom-up leadership model, The Leadership Playground. It came up with the role of Playground Builders, who would encourage their teams to create spaces for role modelling and bringing these values to life. A voluntary role, a Playground Builder cannot be a People Leader of the team for which he or she acts as the playground builder, thus creating diffused responsibility and leadership across the team.

The LEGO Group also emphasised the importance of rituals in driving behaviour. Campfires are safe-space conversations that reflect on the behaviours of bravery, focus, and curiosity. The immediate outcome of the campfires was the development of missions, everyday micro-experiments in practising these values-based behaviours.

A simple, accessible tool and metaphor for workers as well as People Leaders and Playground Builders, campfires mushroomed during COVID. In aggregate, they continued to make the LEGO Group feel like an energising place. Turnover has been encouraged, so that, in 2023, 60 per cent of Playground Builders were new in their roles.

Gradually, the 2,100-strong network of Playground Builders became tasked with more specific agendas, for instance digital transformation and well-being. Once a largely informal, grassroots collective, today the Playground Builders have established themselves as champions of specific strategic change programmes.

The underlying simplicity of the ideas, metaphors, and rituals has ensured a fit with every team across the LEGO Group. To quote Maeve O'Sullivan, Director of Culture and Organisational Development:


All we provide is guidance. Go ahead, hack it, adapt it to your team's own context. I firmly believe that if we were to over-structure and over-metrics this, the whole concept might unravel. We need to have trust in the energy we know this experiment has created.

BY THE PEOPLE, FOR THE PEOPLE: PRACTICAL OUTCOMES FOR COMPANIES THAT GET IT RIGHT

Enhancing curiosity and putting it to work won't turn every employee into a systems thinker and innovator. But it will give people a voice, help them better understand their own roles, and provide them with a common language as a foundation for holding each other accountable. Encouraged to think outside their own narrow frame of reference, they become more exploratory and future-oriented. As employees' trust in the process is strengthened, they obtain a real feel for "this is a company where I can develop myself, where I have the freedom to experiment and learn. I can make a difference. I get to see results." This makes organisational transformations more human-centric and sustainable in the long term.

The sense of engagement works both ways. Our studies show that managers who have experimented with curiosity become curious about their own workforce. They are keen to learn about what drives and what inhibits workers' curiosity. Renee Connolly, Merck's Chief Diversity, Equity & Inclusion Officer and Head of Innovation HR Engagement & Inclusion, reflected: *We find that consistently and systematically feeding the curiosity sentiment has provided us with better inside analysis of what makes our employees tick, flourish, feel energised, do their best work, as well as which of the world's regions are the most curious. DE&I metrics tend to improve significantly. As an employer, we now have a better understanding of, for instance, what kind of benefits are the most effective in making our employees want to be here and want to succeed.*



Embracing and role-modelling curiosity helps leaders evolve and adapt their leadership styles. To the rest of your organisation, it sends a signal that the best way to tackle real-world problems is to get one's hands dirty. Action also solves the conundrum of connecting the fresh spark of curiosity to longer-term projects that fuel transformation — team learning, product development, problem solving, staff recruitment and onboarding. When properly constructed and channelled, curiosity minimises the trade-offs between learning and performance. It can be the driving force as well as the accelerator of developing a culture of adaptability and agility. 

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TOWARDS THE BUILDING OF ORGANISATIONAL RESILIENCE: UNCOVERING THE KEY FEATURES

by Simon L. Dolan, Adnane Belout, Jean-Luc Cerdin, and Javier Casademunt¹

INTRODUCTION

Organisational resilience refers to an organisation's ability to adapt, respond, and recover from disruptive events and changes in its environment. In a VUCA world, which stands for volatility, uncertainty, complexity, and ambiguity, organisational resilience becomes even more crucial.

To become resilient, the organisation needs to develop certain characteristics that were not so crucial in running the business in former years but have become so essential in today's business. For a firm, not being able to adjust quickly may lead to death and extinction. The objective of this article is to describe the principal features of organisational resilience, with an emphasis on culture, structure, leadership, and other relevant features.

WHAT ARE RESILIENT ORGANISATIONS ACCORDING TO DELOITTE'S 2020 REPORT?²

In the wake of a tumultuous 2020, Deloitte Global's fourth annual readiness report explores the concept of organisational resilience. Deloitte consultants wanted to know how organisations were coping with the unexpected challenges they faced in the past year and get their opinions about what made their organisations able to withstand chaos. From that analysis, they sought to identify what traits define resilient organisations – traits business leaders can emulate to build greater resilience into their own organisations.

The Deloitte report has identified five characteristics of resilient organisations that enabled and promoted nimble strategies, adaptive cultures, and the implementation and

effective use of advanced technology. Businesses that were able to bounce back from unexpected challenges typically were:

1 Prepared. Most successful CXOs³ plan for eventualities, both short- and long-term. More than 85 per cent of CXOs whose organisations successfully balance addressing short- and long-term priorities felt they had pivoted very effectively to adapt to the events of 2020, whereas fewer than half of organisations without that balance felt the same.

2 Adaptable. Leaders recognise the importance of having versatile employees, especially after a year like 2020. To that end,



To become resilient, the organisation needs to develop certain characteristics that were not so crucial in running the business in former years but have become so essential in today's business.

flexibility / adaptability was, by far, the workforce trait that CXOs said was most critical to their organisations' future.

3 Collaborative. CXOs indicated the importance of collaboration within their organisations, noting that it speeded up decision-making, mitigated risk, and led to increased innovation. In fact, removing silos and increasing collaboration was one of the top strategic actions CXOs took before and during 2020.

4 Trustworthy. CXOs understand the challenge of building trust. More than a third of responding CXOs were not confident that their organisations had succeeded in developing trust between leaders and employees. Those who are succeeding are focusing on improving communication and transparency with key stakeholders, as well as leading with empathy.

5 Responsible. Most CXOs acknowledge that the business world has a responsibility beyond the bottom line. Eighty-seven per cent of surveyed CXOs who said they had done very well at balancing all their stakeholders' needs also felt that their organisations were able to adapt and pivot quickly in response to disruptive events. That's nearly 50 percentage points more than the proportion of CXOs who said the same at organisations that hadn't done well at balancing their stakeholders' needs.

A CULTURE OF BUSINESS RESILIENCE

The culture of business resilience is a mindset and set of values that prioritise the ability to adapt, recover, and thrive in the face of adversity or disruption. It involves a proactive approach to risk management and a commitment to building and maintaining the necessary capabilities to withstand and recover from various challenges.

The culture of business resilience includes the following key features, which include some that were described in the Deloitte report, as well as many more:

KEY FEATURE I: PREPAREDNESS

The organisation must be proactive in identifying and assessing potential risks and vulnerabilities and take steps to mitigate them before they occur. This includes having robust contingency plans in place and regularly testing and updating them.

- **Risk assessment and contingency planning:** Conduct a thorough risk assessment to identify potential risks and vulnerabilities. This includes analysing internal and external factors such as political instability, economic fluctuations, natural disasters, cybersecurity threats, and supply chain disruptions.
- **Maintain, diversify, and strengthen supply chains:** Relying on a single supplier or location can be risky. Businesses should consider diversifying their supply chains, sourcing from multiple regions, and establishing alternative suppliers.
- **Ensure robust cybersecurity measures:** With increasing cyber threats, businesses must prioritise cybersecurity preparedness. Implement strong security systems, regularly update software, train employees on cybersecurity best practices, and have incident response plans to quickly address any breaches or attacks.
- **Foster a culture that encourages innovation and flexibility:** This will enable quick decision-making and the ability to pivot when needed. Regularly assess market trends and customer needs to stay ahead of the competition.

- **Strengthen financial resilience:** Maintain a healthy financial position to weather uncertainties. Have adequate cash reserves, diversify revenue streams, and establish relationships with financial institutions.
- **Have a crisis communication plan in place:** Establish a comprehensive crisis communication plan to effectively communicate with employees, customers, stakeholders, and the public during times of uncertainty or crisis.
- **Invest in employee training and well-being:** This will enhance employees' skills and knowledge, making them more adaptable to changing circumstances.
- **Conduct scenario-planning exercises:** This helps to anticipate potential future events and their impact on the business.
- **Implement continuous monitoring and evaluation routine plans:** Reassess the effectiveness of preparedness measures. Stay updated on emerging risks and trends and adapt strategies accordingly.

An agile organisation refers to a company or institution that embraces the principles of agility in its operations, decision-making processes, and overall organisational structure.

KEY FEATURE II: AGILITY

An agile organisation refers to a company or institution that embraces the principles of agility in its operations, decision-making processes, and overall organisational structure. This is characterised by its ability to quickly adapt, respond to changes, and remain competitive in a rapidly evolving business environment. Here are a few examples of agile organisations:

- **Spotify:** Is known for its agile organisational structure, where teams work in small, autonomous squads that make decisions independently, experiment with new ideas, and adapt to changing customer needs.
- **Amazon:** Is renowned for its agility, driven by its customer-centric approach. It encourages employees to experiment, take risks, and learn from failures.
- **Zappos:** Is an online shoe and clothing retailer that has built an agile organisation by focusing on core values such as customer service, employee empowerment, and innovation.

- **Google:** Is known for its ability to adapt to changing market conditions and continuously innovate. It promotes a culture of experimentation.
- **Toyota:** Is often cited as an example of an agile organisation due to its renowned Toyota Production System (TPS), which emphasises continuous improvement, waste reduction, and the empowerment of employees to identify and solve problems.

These organisations showcase different approaches to agility, but all share a common focus on flexibility, adaptability, and continuous improvement to remain successful in dynamic business environments.

KEY FEATURE III: LEARNING AND INNOVATION

Many studies show that an organisation that has a culture of continuous learning and improvement encourages employees to learn from past experiences and uses them to inform future actions. It also fosters an environment of innovation, where new ideas and approaches are encouraged and supported.

Overall, a learning and innovation culture is essential for business resilience. It enables organisations to embrace change, continuously improve, solve problems creatively, take calculated risks, share knowledge, and stay future-ready. These attributes help businesses withstand challenges and thrive in an ever-evolving business landscape.

KEY FEATURE IV: COLLABORATION AND COMMUNICATION

An organisation that is transparent about its common values and communicates them to the workforce repeatedly, both to internal and external stakeholders, promotes collaboration across different functions and departments, as well as with external partners and stakeholders. This enables the sharing of information, expertise, and resources, which is critical in times of crisis.

Sharing and leveraging values allows individuals and teams to share their knowledge, expertise, and experiences. This sharing of information helps organisations to better understand their challenges and potential solutions, enabling them to adapt and respond effectively to disruptions or crises.

Collaboration and effective communication foster trust and build strong relationships among team members



and departments. This trust enables individuals to rely on each other, share information freely, and work together towards common goals, even in challenging times.⁴ Strong relationships also help organisations to mobilise resources, access external support, and leverage partnerships to enhance their resilience.

KEY FEATURE V: LEADERSHIP AND CORRESPONDING ACCOUNTABILITY

The organisation's leaders must be committed to building a culture of resilience by setting the tone from the top. They should lead by example, demonstrating resilience themselves, and hold themselves and others accountable for maintaining resilience capabilities.

Accomplished leaders can sustain organisational resilience by articulating and communicating a clear vision of where the organisation is headed. This helps in building a sense of purpose and direction within the organisation, enabling it to adapt and bounce back from challenges.

Sometimes, it is easier to describe the characteristics of an effective and resilient leader by focusing on the antithesis, leaders whose actions can become counterproductive to themselves and to their organisation. Among the features of such anti-resiliency leaders, we can identify:

- **Employing a strategy of personal attacks and bullying:** Social media platforms often witness political or business leaders engaging in personal attacks and bullying tactics against their opponents. This not only sets a negative example to the public but also distracts from meaningful debates and discussions on important issues.
- **Lack of transparency:** Instead of using social media to provide transparent and honest communication, some leaders may use it as a tool to obfuscate or manipulate information. This can erode trust in public institutions and contribute to a growing sense of cynicism among the public.
- **Oversimplification of complex issues:** Twitter's character limit can lead to oversimplification of complex issues by political or business leaders.

This can result in nuanced topics being reduced to sound bites and slogans, failing to address the intricacies and complexities that require thoughtful analysis and discussion.

- **Inciting violence or hate speeches:** Political or business leaders with a large following on social media can potentially use their platforms to incite violence or spread hate speech. Such messages can contribute to a toxic online environment and have real-world consequences, including acts of violence or discrimination.
- **Lack of accountability:** Social media platforms often lack effective mechanisms to hold political or business leaders accountable for their messages. This can allow leaders to spread false information, engage in unethical behaviour, or avoid taking responsibility for their actions.
- **Bombarding with spam messages:** This happens when the leader bombards their followers with excessive promotional content or irrelevant information, without providing any real value or engaging with their audience.

KEY FEATURE VI: CONTROLLING EMOTIONS – EMOTIONAL INTELLIGENCE

Resilient leaders are empathetic and understand the emotions and concerns of their employees. They can





provide emotional support, foster a positive work environment, and help employees cope with adversity, thus enhancing the overall resilience of the organisation.

Overall, emotional intelligence leaders can build strong relationships, promote a positive work culture, encourage open communication, manage conflicts effectively, and adapt to change, contributing to the organisation's ability to withstand and recover from adversity.

KEY FEATURE VII: BUILDING A CAPABLE TEAM

Accomplished leaders understand the importance of building a strong and capable team. They hire the right talent, provide them with the necessary resources and support, and empower them to take ownership of their work. This creates a resilient workforce that can effectively respond to and overcome challenges. In other words, a leader who builds a capable team contributes to business resilience by ensuring that the team is equipped with the necessary skills, knowledge, and resources to handle challenges and adapt to change. Here are some ways in which such a leader fosters business resilience.

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KEY FEATURE VIII: PROMOTE GENUINE EMPLOYEE WELL-BEING

A real must for organisational resilience is the recognition of the importance of the well-being of the employees. This promotes work-life balance, provides resources for mental and physical health, and offers support during challenging times,

helping to build a resilient workforce that can effectively cope with stress and adversity⁵.

Healthy employees are better equipped to deal with adversaries for several reasons:

- Healthy employees have higher physical stamina and energy levels, allowing them to handle challenging situations more effectively.
- Good physical health is closely linked to mental well-being. Healthy employees are more likely to have better cognitive function, including improved memory, focus, and problem-solving abilities.
- Physical fitness and overall health contribute to emotional stability. Healthy employees are better equipped to handle stress, anxiety, and other negative emotions that may arise when dealing with adversaries.
- Good health boosts the immune system, making healthy employees less susceptible to illness and more resistant to the physical effects of stress.
 - Maintaining good health often involves adhering to healthy habits and self-care routines.
 - Healthy employees are more likely to engage in teamwork and to contribute positively to team efforts, which can be crucial when dealing with issues that require collective problem-solving and cooperation.

TOWARDS A SYSTEMIC VIEW OF ORGANISATIONAL RESILIENCE

An interesting angle from which to view organisational resilience is to examine the organisation in a more holistic and systemic perspective. Figure 1 proposes the principal subsystems that need to be analysed and strengthened to build organisational resilience.

**FIGURE 1:****A SYSTEMIC VIEW OF ORGANISATIONAL RESILIENCE**

Let's add a few words on each of the six subsystems that operate in every organisation.

Workforce & Leadership Resilience

SUBSYSTEM I

Workforce and leadership resilience refers to the ability of individuals and organisations to adapt, recover, and thrive in the face of challenges and adversity in the workplace. It encompasses the skills, attitudes, and resources necessary to navigate and overcome stress, change, and uncertainty.

Here are some examples of firms that, over the years, have shown the resiliency of their workforce:

- **Johnson & Johnson:** Is a multinational pharmaceutical and consumer goods company that has a reputation for its strong commitment to employee well-being and resilience. They provide extensive employee support programmes, including mental health resources and stress management initiatives, which help their workforce stay resilient in the face of challenges.
- **Southwest Airlines:** Is known for its resilient workforce, which invests heavily in employee training and development and fosters a sense of camaraderie and support among its staff.

- **Netflix:** Is a popular streaming service known for its innovative and resilient workforce and embraces a culture of freedom and responsibility, allowing employees to take risks and learn from failures.

Obviously, and as we have discussed before, to nurture workforce resilience, leaders need to withstand and adapt to the challenges, setbacks, and uncertainty while maintaining a positive and proactive approach. They possess a strong sense of purpose, emotional intelligence, and the ability to make tough decisions in the face of adversity and “sell it to the workforce” as a real necessity.

Strategic Resilience

SUBSYSTEM II

Strategic corporate resilience refers to a company's ability to withstand and adapt to various internal and external challenges while maintaining its long-term goals and competitive advantage.

It involves proactive measures and preparedness to navigate through uncertainties and disruptions. Here are a few examples of strategic corporate resilience:

- **Diversification:** For instance, an electronics manufacturer that produces smartphones may diversify into wearable technology or home appliances to reduce its dependency on a single product line.
- **Sustainable practices:** Companies can demonstrate resilience by adopting sustainable practices that help them mitigate risks associated with environmental and social issues. An example might be an energy company investing in renewable energy sources to reduce its reliance on fossil fuels and comply with changing regulations.
- **Crisis management:** Building a robust crisis management plan is crucial for corporate resilience. This involves identifying potential risks, establishing clear communication channels, and implementing protocols to effectively respond to crises.
- **Innovation and technology adoption:** Embracing innovation and leveraging emerging technologies can enhance a company's resilience. An example could be an automotive manufacturer investing in electric vehicles and autonomous driving technology to adapt to changing consumer preferences and industry trends.

- **Supply chain resilience:** This includes diversifying suppliers, creating redundancies, and implementing risk management strategies. For instance, an apparel retailer might maintain relationships with multiple suppliers across different regions to mitigate risks associated with disruptions in a single country.
- **Talent management:** Investing in talent development and retention strategies is essential for corporate resilience. This involves creating a culture of learning and innovation, providing opportunities for skill development, and having a succession plan in place to ensure continuity in leadership.

Technological Resilience

SUBSYSTEM III

Corporate technological resilience refers to a company's ability to withstand and recover from technological disruptions, including cyberattacks, system failures, or emerging technologies. It involves having robust technology infrastructure, effective cybersecurity measures, and the ability to adapt and innovate in the face of technological advancements. Here are a few examples:

- **IBM:** In the 1990s, IBM faced significant challenges due to the rise of personal computers, but the company successfully transformed itself by shifting its focus towards services and consulting. This resilience helped IBM stay relevant and thrive in the rapidly evolving tech industry.
- **Microsoft:** Microsoft has demonstrated technological resilience through its ability to address security vulnerabilities and respond to cyberattacks. For instance, after the infamous WannaCry ransomware attack in 2017, it quickly released patches and updates to protect its systems and help customers mitigate the risks.
- **Amazon:** Amazon's technological resilience is evident in its cloud computing arm, Amazon Web Services (AWS), which offers a highly reliable and scalable infrastructure, enabling businesses to build resilient applications and withstand technological disruptions. Recently, they have also incorporated AI technologies into their services and products to strengthen the company's resilience.
- **Tesla:** Tesla has revolutionised the automotive industry by introducing electric vehicles and autonomous driving technologies. Tesla's resilience is focused on embracing new technologies.



- **JPMorgan Chase:** One of the largest banks globally, the company demonstrates technological resilience by investing in cybersecurity and developing advanced fraud detection systems. It is continuously enhancing the technology infrastructure to protect customer data and prevent cyberattacks.

Financial Resilience

SUBSYSTEM IV

Financial corporate resilience refers to the ability of a company to withstand and recover from financial shocks or disruptions, such as economic downturns, market volatility, natural disasters, or regulatory changes. It involves having strategies, policies, and practices in place to mitigate risks and ensure the long-term stability and sustainability of the company's financial position.

Examples of financial corporate resilience measures include:

- **Diversification of revenue streams:** By diversifying their revenue streams across different products, services, or geographical regions, companies can reduce their exposure to specific risks. For example, a technology company may diversify its revenue by offering both hardware and software products.
- **Strong capital and liquidity management:** Maintaining adequate capital reserves and liquidity buffers is crucial for withstanding financial shocks. They ensure sufficient cash flow, access to credit facilities, and a well-structured debt profile in any given context of distress.
- **Risk management and contingency planning:** This is essential for identifying and mitigating potential risks. Companies that prioritise risk management conduct regular stress tests, scenario analyses, and have contingency plans in place. For instance, financial institutions may stress-test their portfolios to evaluate the impact of adverse market movements on their capital positions.
- **Sustainable cost management:** Prudent cost management is vital for financial resilience. Companies that maintain a disciplined approach to cost control can better weather economic downturns or market volatility.
- **Adapting to changing market conditions:** This involves quickly adapting to changing market dynamics, monitoring industry trends, customer preferences, and regulatory changes to identify potential risks and opportunities. For example, companies that successfully transition from traditional brick-and-mortar retail to e-commerce have demonstrated financial resilience.
- **Robust corporate governance:** Sound corporate governance practices contribute to financial resilience by ensuring effective oversight, risk management, and accountability. Such companies have independent boards, transparent decision-making processes, and



effective internal controls. In the end, this fosters confidence among investors and stakeholders, helping to maintain financial stability.

It is important to note that financial corporate resilience is not a one-size-fits-all concept, and the specific measures taken by companies may vary based on their industry, size, and other factors.

Operational Resilience

SUBSYSTEM V

Operational corporate resilience refers to an organisation's ability to withstand and adapt to various internal and external disruptions while maintaining critical operations and delivering value to stakeholders. It involves strategies, processes, and structures designed to identify, assess, and mitigate risks and vulnerabilities that could impact the organisation's ability to function effectively.

Examples of operational corporate resilience measures include:

- **Business continuity planning:** It is essential to ensure that the business functions during and after a disruption. This includes identifying critical processes, establishing backup systems and infrastructure, and creating communication protocols.
- **Incident response and crisis management:** Establishing protocols and procedures to effectively respond to incidents and crises. This includes defining roles and responsibilities, establishing communication channels, and conducting regular drills and simulations to test response capabilities.
- **Employee resilience:** Building resilience within the workforce by providing training and support to employees, as discussed earlier.

Line management plays a crucial role in operational corporate resilience. They are responsible for implementing and enforcing resilience measures within their respective departments. Line managers are involved in identifying

Line management plays a crucial role in operational corporate resilience. They are responsible for implementing and enforcing resilience measures within their respective departments.



and assessing risks, developing and implementing business continuity plans, and ensuring that employees are trained and prepared to respond to disruptions. They also play a key role in communicating and coordinating response efforts during incidents or crises.

Brand Resilience

SUBSYSTEM VI

Corporate brand resilience refers to a company's ability to withstand and recover from various challenges, crises, or negative events without significant damage to its brand reputation. It involves implementing measures to protect the brand and ensure its long-term sustainability. Here are some key measures to protect the brand:

- **Crisis management plan:** This plan should include clear protocols, designated crisis management teams, and predefined communication strategies to minimise the impact on the brand. An example would be Johnson & Johnson's response during the Tylenol poisoning incident in 1982, where they swiftly recalled and reintroduced

the product, demonstrating their commitment to consumer safety.

- **Proactive communication:** Maintain open and transparent communication with stakeholders, including customers, employees, investors, and the media to build trust and credibility. An example is Patagonia's consistent communication on environmental sustainability and their initiatives to reduce their carbon footprint, which aligns with their brand values and resonates with their target audience.
- **Strong corporate culture:** Foster a culture that emphasises ethical behaviour, transparency, and accountability. This builds a foundation of trust among employees, which translates into consistent brand representation and reduced risk of internal issues impacting the brand⁶. The most popular example is Google's corporate culture, highlighted by their mission statement, "to organise the world's information and make it universally accessible and useful". This culture has helped them maintain a positive image and attract top talent.
- **Customer experience management:** Prioritise customer satisfaction and loyalty by delivering exceptional customer experiences. Focus on delivering quality products and services, personalised interactions, and prompt resolution of customer issues to protect the brand's reputation. A widely known example is that of Apple's emphasis on user experience through innovative design, ease of use, and excellent customer service, which has contributed to their brand resilience, resulting in a loyal customer base.
- **Social media monitoring:** Actively monitor social media platforms and online channels to identify and address any negative sentiment or misinformation promptly. Engage with customers, respond to their feedback, and address their concerns to maintain a positive brand perception. For example, Starbucks' effective social media presence allows them to quickly respond to customer complaints or negative comments, demonstrating their commitment to customer satisfaction.
- **Diversified brand portfolio:** Diversify the brand portfolio to mitigate risks associated with depending heavily on one product or service. This helps protect

Yes, an organisation can prepare for adversity and become more resilient; it can be re-engineered to develop a culture of resilience.

the overall brand reputation, even if one component faces challenges. An example is Unilever's diverse brand portfolio, including Dove, Ben & Jerry's, and Lipton, which allows them to weather market fluctuations and maintain a strong brand image across different consumer segments.


CONCLUSION

Yes, an organisation can prepare for adversity and become more resilient; it can be re-engineered to develop a culture of resilience. Here is a summary of some strategies and steps that should be taken:

- Create an environment where values are shared and aligned with the objectives of the corporation.⁷
- Identify potential risks and vulnerabilities that the organisation may face. This can include natural disasters, economic downturns, cybersecurity threats, or supply chain disruptions.
- Create a detailed plan that outlines how the organisation will respond to and recover from adversity.
- Ensure that the organisation has diverse revenue streams, a skilled workforce, and a flexible supply chain.
- Establish partnerships and collaborations with other organisations, government agencies, and community stakeholders that will provide support and resources during times of adversity.



- Test and update the plan regularly, engage in exercises and drills to test the effectiveness of the contingency plan. Identify weaknesses and areas for improvement and update the plan accordingly.
- Learn from past experiences and analyse previous instances of adversity and learn from them.
- Lastly, foster a culture of resilience by nourishing a proactive and resilient mindset among employees. Encourage innovation, adaptability, and continuous learning.

By taking these steps, an organisation can enhance its preparedness and develop the ability to withstand and recover from adversity, ultimately becoming more resilient. 

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3. CXOs are high-level executives who focus on creating consistent, frictionless CXs that meet or exceed expectations across all customer touch points and at every stage of the customer journey – before, during, and after a sale is complete.
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PART B

DESIGNING ORGANISATIONAL ECOSYSTEMS AND OVERCOMING BARRIERS TO IMPLEMENTATION

by Jonathan Trevor and Kazuhiro Asakawa

In the second of a two-part series on aligning organisational ecosystems to be fit for purpose and high-performing, this article delves deeper into how firms must be mindful of the unique implementation challenges associated with this more complex form of organising work.

Organising as an ecosystem(s) (or an organisational ecosystem, as we refer to it) bestows upon firms many benefits on paper. It enables firms to exploit economies of association and capitalise upon the resources and capabilities (think talent, technology, and knowledge) of a network of external partners (think other firms, institutions) to supercharge their innovation capabilities in ways not possible if relying upon internal resources alone.

However, most organisational ecosystems fail to deliver on their promise according to published research.¹ Part A of this two-part series

of articles focused on the importance of strategically aligning organisational ecosystems to be fit for purpose if they are to succeed. It put forward a framework of three strategic choices, each of which is vital and should align closely to achieve high performance. First, managers should formulate a clear ecosystem purpose (a first-order choice); second, they should select the most appropriate ecosystem strategy (a second-order choice) from a range of options to fulfil that purpose.²

This article, Part B, focuses on a third-order set of design choices: from a variety of options, which ecosystem structures and resources will enable firms to implement their chosen strategy best. No matter how much time is devoted to ecosystem purpose and planning, effective implementation makes or breaks how well firms can practically leverage external resources for value and avoid the pitfalls associated with this more complex form of organising work.

THIRD ORDER CHOICE — WHICH ECOSYSTEM STRUCTURE?

A third critical choice for managers is to select the appropriate ecosystem structure to support the implementation of their chosen strategy. We define ecosystem structure as the combination of organisational ingredients (you could also say resources) that form the makeup of every ecosystem and which enable it to fulfil its stated purpose in ways intended by its chosen strategy.³

Like any form of organisation, ecosystem structure (or you might also say design) can be helpfully thought of in terms of required human capital (think skills, knowledge, and behaviours of people, including those residing within partnering organisations), social capital (think relationships, networks, and social methods of exchange, across the whole ecosystem) and organisational capital (think processes, cultures, and structures in which knowledge is objectified, both inside and outside an ecosystem's focal organisation).⁴ We add a

The challenge for managers is that there is no one-size-fits-all design of an ecosystem that suits all purposes. Different ecosystem strategies require different varieties of each ingredient.



fourth category — technological capital — to this list. Technological capital includes the combined value of technology, including information systems, artificial intelligence, cloud computing, and others, for example.

The challenge for managers is that there is no one-size-fits-all design of an ecosystem that suits all purposes. Different ecosystem strategies require different varieties of each ingredient. For sure, some universal people characteristics, for instance, are valuable in all contexts, such as technical skills, basic competence, or industry-related know-how. However, different types of ecosystems require particular skills, competencies, and behaviours to be effective. The same is true with the closeness and strength of network ties or the type of technology required to support collaborative ways of working. All four forms of capital are important in every type of ecosystem, but each matters more or less as a priority according to the requirements for openness and horizontal integration.

HUMAN CAPITAL:

Closed horizontal ecosystems in the organisations we studied, such as IBM's strategic partnership ecosystem, tended to emphasise investments in human capital. They were reliant upon the behaviour of key relationship managers at all levels of each strategic partnership to ensure effective collaboration and downstream delivery of novel market offerings. Horizontal collaboration involves more autonomous contributions by actors. For this reason, human capital is critical for this type of ecosystem. Human capital requirements do vary. For instance, closed vertical ecosystems

tended towards individually focused work within a B2B transactional relationship, but with much less emphasis on human and social capital investments.

SOCIAL CAPITAL:

The development of social capital was considered a priority in open and horizontal ecosystems, primarily to support the forming of connections between different groups through which serendipitous and open-ended innovations might occur. For instance, Sosei Group Corporation's early entry into open, horizontal collaboration in the innovation ecosystem in the UK was due to the personal network with the local scientists of its founder, President Shinichi Tamura.⁵ Or consider the stated corporate values of ARM as a focal organisation presiding over a rich innovation network of thousands of partners. To support the types of horizontal interactions required to support cutting-edge microprocessor design, ARM emphasises *customer and partner focus, constructive pro-activity, innovation, teamwork and selflessness* as core values applying to all of its 7,000-strong workforce.⁶

Each value is supported by a suite of human resources intended to elicit those behaviours, including compensation systems (e.g. incentives), but also a heavy emphasis on personal development and network opportunities. The decline of in-person opportunities to forge new or maintain existing network connections during the COVID-19 global pandemic represented a challenge for many firms reliant upon strong partner and network ties through which to engage in serendipitous conversations, co-deliver complex propositions to market and create and exchange new knowledge for innovation purposes.

ORGANISATIONAL CAPITAL:

Closed vertical ecosystems are typically focused much more on organisational capital investments in the form of objective performance data, clear processes, and defined parameters. These are representative of vertical integration through hierarchical control mechanisms. Consider the example of mega-company NTT DATA (NTTD) and its payment ecosystem. Within Japan, NTTD has been leading the cashless payment system via its

“CAFIS” platform for 35 years as a precursor to what is now a common payment method. CAFIS is a node that connects credit/finance card companies with various stakeholders, including finance institutions (e.g., banks), local governments, and millions of vendors and merchants both within Japan and abroad.

To manage this volume of transactions reliably at scale, NTTD has to date invested heavily in developing robust organisational capital in the form of elaborate business processes, targeted system optimisation, infrastructure development, performance measures, and development automation, all features of organisational capital development in which valuable knowledge and information are encoded as a standard and scalable management practice.⁷

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TECHNOLOGICAL CAPITAL:

Open vertical ecosystems in our study were highly technologically driven, using digital platforms as the primary means of aligning network actor interests through, typically, microtransactions. Effective management of global value chains, a typical case of open vertical ecosystems, often relies upon digital technology platforms to manage thousands of individual transactions. Returning to the example of NTTD, it is innovating its CAFIS platform.

NTTD identifies three periods of development for its payment ecosystem — foundation, expansion, and transformation. CAFIS is entering the transformation period, having expanded significantly in recent years, especially during COVID-19, the vision for which is that it will cease to be purely a payment platform and become instead a customer

”one-stopshop” in which digital technology supports ever greater levels of customer choice (of products and services) and personalisation through data mining, information cooperation, channel integration, and automation.

These are all features of digital transformation, or DX, as it is referred to by Ken Watanabe, General Manager within CAFIS. At the same time, digital technology alone cannot deliver the required business transformation. NTTD is also investing heavily in its values and organisational culture, including a pivot towards a “flat, bottom-up culture that emphasizes creativity and challenge”.⁸

Such ecosystem design choices are separate from the everyday tactical and operational decisions managers must make, such as which partners to choose, where to locate an ”innovation outpost” or how much information to share. While both sets of choices (strategic and tactical) are essential, in our experience, the latter is made considerably easier if there is clarity around the former.

Consider for your organisation: which is the most appropriate ecosystem structure? Which variety of human capital is required? Or organisational capital? Again, it depends upon the strategy being pursued. Similarly, which form of capital is the priority to implement your chosen ecosystem

strategy? Investments in any form of structural capital supporting ecosystem implementation are not mutually exclusive.

On the contrary, investments should be complementary. Human capital investments and capabilities should support technological capital and vice versa. And, finally, as resources, how are your people, networks, cultures, processes, and technologies best managed to deliver the results needed? Its structure is a key component of the ecosystem value chain and is where the rubber hits the road regarding implementation.

ECOSYSTEM ALIGNMENT CHALLENGES

Ecosystems pose unique and additional implementation challenges that managers should know to avoid being tripped up.

MISALIGNMENT IS A PERENNIAL RISK:

First, managers should always be conscious of the potential for misalignment. By virtue of their design, ecosystems are the most complex form of organising work. They consist of many moving





parts, especially external actors with diverse interests, much more than the traditional internally focused hierarchical organisation, which typically prizes cultural homogeneity. Reconciling competing interests and assumptions between partnering firms and maintaining coherence are just some of the challenges involved. And, of course, in open and highly collaborative ecosystems, the potential for misalignment is even higher.

Consider again the example of the storied consumer electronics company Sharp mentioned earlier. Founded over a hundred years ago, Sharp was a major international player in designing and manufacturing innovative and high-quality electronics, ranging from televisions to audio. However, failure to keep pace with rapid technological change and international price competition, especially from new market entrants from China, placed it within a "commoditization trap" of declining performance.

Sharp embarked upon a strategy to enhance its openness to external innovation via collaborations with an ecosystem of partnering organisations. But despite concerted attempts to reorganise along ecosystem principles – to capitalise upon external resources to revitalise its products – it failed. A key reason was its failure to manage its ecosystem as a more complex form of work organisation due to its

prevailing internally focused structure and culture. In other words, its structure was a poor fit for its chosen ecosystem strategy. Its competitor, Foxconn, eventually bought Sharp for a mere \$3.8bn in 2016 (a considerable drop from its historic high).⁹

Complex organisations are more naturally prone to disintegration and entropy than simple ones – to return to an atomised state and to lose energy in the form of capital expenditure, whether financial, human, social, organisational, or technological, over time and at a rate commensurate with the state of alignment, i.e., highly misaligned organisations dissipate energy most quickly.¹⁰

Another consideration is the multi-level nature of the ecosystem working. IBM identifies four principal levels of working within its strategic partnerships: *the top level, areas of focus level, individual opportunity level, and local application level*. The top level is a strategic concern as to why two organisations would choose to partner. IBM also organises its top service partners into a Platinum, Gold and Silver ranking based upon the level of joint engagement, co-creation and revenue.¹¹ Each service partner is carefully selected for its complementary capabilities and represents an opportunity to deliver a joint technology or consulting outcome that would not be possible if either firm were to rely upon its own resources alone.

Each strategic partnership is then given an area of focus, the second level, which defines the desired co-delivered impact (e.g., sustainability, digital transformation, or social value innovation) and choice of target client sector. The individual-level opportunity describes how the strategic partnership will pool resources to win and deliver particular client outcomes. These considerations define joint ways of working to successfully finish a project. Finally, the local application level is how a collaborative project is delivered in different settings if a common client is a multinational corporation with different geographies, for example. Like the ecosystems they are a feature of, strategic partnerships must be aligned at all levels to deliver on their promise of a differentiated client outcome. Alignment within ecosystems is multi-faceted at multiple levels and over various periods (e.g., from client opportunity to client opportunity in the case of IBM and as the ecosystem itself matures).

SOME TYPES OF ECOSYSTEMS ARE HARDER TO ALIGN THAN OTHERS:

Managing any ecosystem is not easy, but some strategies are more challenging than others. Our findings indicated that those ecosystems that were more open to external members *and* the most horizontally integrated were the most complex and the hardest to align. However, they also typically offer the greatest strategic advantage precisely because they are hard to emulate or replicate by competitors. Therefore, the managerial ability to align complex ecosystems and maintain their fitness over time becomes itself a factor in sustainable performance and competitive advantage. Ecosystem leadership development is a must, in other words.

The established view of strategic alignment is that organisations operate best when they are in a stable state, which, when punctuated by a period of change, is followed by the restoration of equilibrium.¹² For example, biological ecosystems,

such as the human body, are considered to be optimally functioning when all physical, chemical, and internal systems, such as temperature and fluid balance, are homeostatic – operating in a steady state within required limits.

However, a feature of ecosystems is that they operate in a constant state of change by design. Research indicates that complex adaptive systems, such as ecosystems, exist naturally in states of disequilibrium or a “far-from-equilibrium” state and are characterised by non-linear flows of information and resources.¹³ This is especially true when they are more horizontally integrated (i.e., egalitarian) and open. For this reason, alignment is dynamic and cannot mean “fixed” or homeostatic in the usual sense.¹⁴

Consider the example of swarming drone technology.

The United States Air Force is seeking to replace its existing fleet of aircraft with a “system of systems” family of manned and unmanned aircraft of different roles, shapes, sizes, and capabilities. These individual systems, or ecosystem actors, run the whole gambit from air and ground fighters, reconnaissance, command and control, electronic defence, transport, and aerial refuelling. The idea is that each system acting in concert can offer any

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mission commander “a continuum of platforms most effective to [any] given problem” according to real-time and emergent requirements on the ground and in the air.¹⁵

The unique alignment challenge for focal firm leadership is maintaining organisational coherence while providing opportunities for the delegated authority necessary – perhaps even deliberately stimulating ecosystem disequilibrium – to ensure reconfigurability around emerging requirements, such as changes in customer buying behaviour.

SOME COMPANIES MAY NEED TO MANAGE MORE THAN ONE ECOSYSTEM SIMULTANEOUSLY:

Another key challenge is to handle multiple and different forms of ecosystems simultaneously. The idea of ambidexterity is core to published innovation literature. It is most closely associated with the ability of firms to efficiently deliver short-term results while also developing longer-term innovations. In other words, to overcome the perceived trade-off between efficiency and flexibility and “do both” in the words of Inder Sidhu of Cisco Systems.¹⁶

But another perspective on ambidexterity is the alignment of multiple different types of ecosystems simultaneously, each serving a different purpose and acting in ways that are complementary and not in conflict. Returning to the example of IBM, even though the critical mass of IBM as an ecosystem is shifting to ever greater degrees of openness and horizontal integration between partnering firms, it will likely retain its closed vertical ecosystem of resellers in addition to its more open horizontal ecosystem of key project partners and strategic partnerships. Managing multiple types of ecosystems simultaneously puts a strain on the focal firm management. It must be capable of juggling multiple different and ever-changing strategies and structures over time whilst maintaining coherence as one overall aligned system.

Or consider the even starker example of the Toyota Motor Company (Toyota). Toyota is famous for its laser-like focus on operational efficiency and its ability to manufacture high-quality cars at scale. Toyota pioneered lean manufacturing and the Toyota Production System, which relies on a tightly



managed supply chain of numerous external suppliers and partners. As a closed vertical integrated ecosystem, Toyota exerts strong supervisory influence over its supply chain, setting and maintaining standards and monitoring performance.

Contrast this with its designed community, Woven City, mentioned earlier. While both require the capitalisation of external resources, the two ecosystems – *closed vertical and open horizontal*, respectively – could not be more different. When competitors are not equally ambidextrous, it becomes a source of sustainable competitive advantage.

ECOSYSTEMS MUST BE REALIGNED AS REQUIRED, WHICH MAY BE CONSTANTLY:

Of course, even if a state of high alignment is achieved, in practice, the requirements for openness and integration are a constantly moving target, depending upon the introduction of new technologies, disruptions, changing customer preferences, and the positioning of competitors. Managers must be prepared to realign their approach to their ecosystem to better fit changing external requirements.

For example, the IBM strategic realignment journey overall might be described in three phases. Phase 1 was the focus on the reseller network prior to 2019. Phase 2 is the current move since 2020 to capitalise upon strategic partnerships, retaining a focus on a relatively closed network of key collaborations (closed horizontal). Phase 3 is envisioned to shift the critical mass of its ecosystem towards greater openness to enable the company to work with more and different strategic partners, with a goal of tripling its ecosystem income by 2025.


Takeda, once holding its in-house R&D approach, turned to an open-horizontal R&D partnership in the late 2010s to reflect changing requirements.¹⁷ As noted, ecosystems differ from the traditional hierarchy in that they may exist in a permanent state of disequilibrium. The more open and horizontally integrated an ecosystem, the less likely strategic realignment will occur in episodes. Therefore, strategic realignment is a key capability requirement and a constant state of being in some cases. Again, one-size-fits-all prescriptions are unhelpful.



SUMMARY

The study presented in this series of articles confirms that firms' attempts to leverage external resources by adopting ecosystem principles can offer clear advantages over more traditional and inwardly focused forms of organising. But ecosystems pose age-old challenges and some new ones, possibly making achieving alignment harder and explaining the high failure rate. So, which steps should managers follow to improve their chances of success?

First, understand the purpose — the why — behind the choice to adopt ecosystem principles. Second, select the most appropriate strategy supporting that purpose according to requirements for openness and integration. There is no one-size-fits-all ecosystem strategy that works in all situations. Third, select the ideal ecosystem structure as a combination of different forms of human, social, organisational, and technological capital required to ensure effective implementation of the chosen ecosystem strategy. It is only when an ecosystem's purpose, strategy, and structure are in alignment that it can be successful.

The decision-making framework helps managers establish a dominant logic that encompasses the why, the what, the how, and the how well of their organisational ecosystem. This logic should be expressed as a narrative to all stakeholders across the entire ecosystem because it provides a common definition of success and the rules of the game for all, no matter how dissimilar, to abide by. 

ACKNOWLEDGEMENT

THE AUTHORS WISH TO THANK ALL PARTICIPATING COMPANIES FOR THEIR INVALUABLE INPUT.

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FLEXIBLE PUBLIC HOLIDAY ARRANGEMENTS: AN EXAMPLE OF AN EFFICIENCY WAGE

by Fabrizio Carmignani
and Ambika Zutshi

Workers value flexibility, as it provides them with a better work/life balance among other things. Hence the advantage of the flexible public holiday arrangement which, done properly, can be a win-win solution that increases productivity and strengthens workers' wellbeing.

We value our employees”, “Employees are our biggest assets”, “Employees are invaluable for us”, etc. Phrases such as these are common across company websites and other public-facing communication. Nonetheless, how does an employer demonstrate that they value their employees? This question has been answered in myriad ways by different disciplines (see, for instance, Shields et al. 2015). Economics, in its neoclassical version, provides what is possibly the least compassionate answer: by paying a wage equal to the marginal productivity of the worker. This can be further compounded by the sentiment (rightly or wrongly) across current and potential workers that they can be replaced anytime with another worker for lower

The employee appreciates being paid a “high” wage and hence works harder; the employer pays a “high” wage and obtains increased output per employee.

pay and benefits. However, employers generally behave differently and pay an *efficiency wage* that is sufficiently high to induce the workers to put their (best) effort into their jobs and achieve the highest possible level of productivity. In other words, rather than taking productivity as a given, the employer fosters productivity by paying higher wages to good workers, even if there are unemployed workers who would accept to work for less (Shapiro and Stiglitz, 1984).

The efficiency wage uses a monetary reward to create a win-win situation for employees and employers. The employee appreciates being paid a “high” wage and hence works harder; the employer pays a “high” wage and obtains increased output per employee. The notion of efficiency wage can be

extended to the broader package of workplace arrangements as long as employees do value non-monetary rewards. From an economic perspective, this provides a rationalisation for the growing popularity among both employees and employers, of flexible work arrangements such as flex time, compressed workweek, and working from home (WFH). Workers value flexibility, as it provides them with a better work/life balance and in turn a sense of improved employee morale, job satisfaction, and potentially higher productivity and retention.

There is growing evidence (Boltz et al. 2023) that flexibility as a non-monetary reward in theory, can have the same effect as the monetary reward embedded in the efficiency wage, leading to greater productivity and, ultimately, better outcomes for both worker and employer. So, can similar principles be applied to the rising trend of providing flexible public holiday arrangements to an employee? Before jumping onto the band-

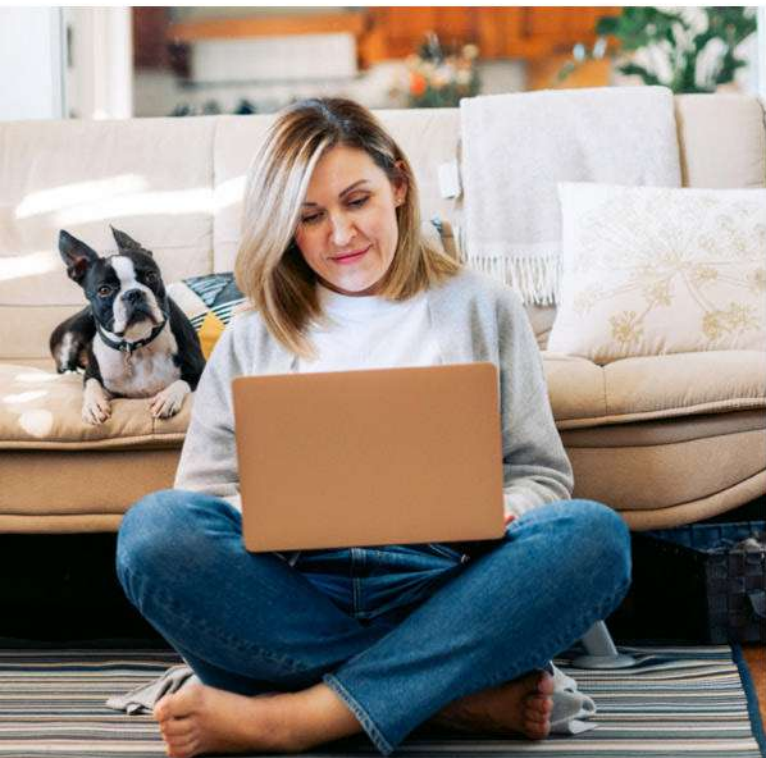
Flexible arrangements that are unilaterally imposed by employers are unlikely to be perceived as a reward by workers and would therefore not generate any significant benefits in terms of productivity and/or satisfaction and well-being of the worker.

wagon, employers need to consider the nature and size of their business operations, capabilities and capacities of their workforce, not to mention any regulatory requirements across geographical borders. An employer needs to minimise the risk of the use of flexible work arrangements as a non-monetary reward backfiring as evidenced by WFH reducing the sense of teamwork and increasing isolation from employees' perspective, and absence of separation between workplace and personal

space, all of which might lead an employee working longer hours and/or feeling more fatigued. When working primarily remotely, the worker can become less visible, and hence be overlooked for career opportunities. The consequence would be decreased (rather than increased) productivity and a lose-lose (rather than win-win) outcome for workers and employers. The interaction and engagement fuelling connectivity, productivity and creativity amongst

workers that derive from being physically in the same place cannot be replicated by online connectivity. Accordingly, the employer needs to create and enforce WFH/flex-work policies that are inclusive of employees' diverse backgrounds and commitments. No one policy can be applied blanketly, nonetheless, to ensure equity and transparency in policy implementation, there must be flexibility in the policy itself to allow supervisors to make the call.


From the employer's perspective, it is preferable to combine different forms of flexibility to minimise the potential impact of their backfiring. An example is the *flexible public holiday arrangement*. In simple terms, this is an arrangement where workers are given (some) flexibility to swap a public holiday on the calendar for another day that has cultural, religious, or social importance to them. This arrangement is increasingly being considered by employers, particularly as an approach to recognise diversity and support the inclusion of their workforce. Considering the value that most people attach to





the celebration of particular days of importance in their culture, religion or societal circles, this flexible public holiday arrangement is likely to represent quite a significant non-monetary reward for workers. Simultaneously, with a minimum of coordination between employer and worker, swapping public holidays should not have major adverse implications on teamwork and collegiality. That is, this is an arrangement that has a strong potential to produce positives for both worker and employer, with reduced risk of backfiring.

The flexible public holiday arrangement will work best if the employer and worker coordinate with one another by discussing and agreeing on the parameters of the arrangement, e.g. how many days can be swapped, duration of the notice before swapping of the holidays, limitations related to days of closure of business or peak business operation period for instance. A two-way conversation will increase the potential for win-win outcomes resulting from any type of flexible work arrangements. Flexible arrangements that are unilaterally imposed by employers are unlikely to be perceived as a reward by workers and would therefore not generate any significant benefits in terms of productivity and/or satisfaction and wellbeing of the worker. Similarly, when flexible arrangements take the form of an ultimatum imposed by workers on the employer, then the risk that these arrangements compromise the operational requirements of the business increases.

In essence, the pandemic has spotlighted the value attached by workers to non-monetary rewards in the form of flexible work arrangements. This has provided workers and employers with the opportunity to redefine the concept of efficiency wage, therefore creating scope for win-win solutions that increase productivity and strengthen workers' well-being. Flexible public holiday arrangements represent a new form of flexibility that employers and workers should consider as it has a strong potential for delivering a large win-win payoff, but only to the extent that it is clearly parameterised to fit operational requirements and designed from a consultative two-way conversation between employer and worker in the current era of quiet quitting and Chrono working. 

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LUCKY BY DESIGN

5 CLEVER ATTITUDES TO TILT ODDS IN YOUR FAVOUR by Avi Liran

While you wait for your ship to come in, have you given any thought to building a lighthouse, or even dredging the harbour? Sometimes luck needs a little help, as Avi Liran explains.

Do you consider yourself lucky? Do you want to increase your luck?

It is believed that Napoleon Bonaparte countered criticisms about his reliance on luck in battles by stating, *“I prefer lucky generals to skilled ones.”* Napoleon ignored his Foreign Minister Maurice de Talleyrand-Périgord’s advice against the invasion of Russia in 1812, where he lost the war to “General Winter”. The lessons of history reveal that excessive reliance on luck and neglecting constructive criticism can exhaust one’s lucky streak.

Despite amassing billions through his telecommunications empire bearing his name, the former Thai Prime Minister Thaksin Shinawatra’s decision to evade taxes on the \$2 billion sale of his conglomerate to the Singaporean Temasek Holdings accelerated his downfall because of corruption. While fortune favours the bold, it tends to evaporate when the arrogant are blinded by greed.

Before we embark on a quest for greater luck, let’s cast aside the shadows and identify the lurking enemies that threaten to swallow our good fortune whole. These are the biggest black holes of luck: greed, hubris, complacency, impulsivity, neglect of ethics, not listening to feedback, inflexibility, and short-sightedness and paralysis because of the fear of taking risks.

If you’re a fan of astrology or fortune tellers, beware. Just the other day, my fortune cookie declared, “Changing your hairstyle may bring you luck.” The irony? I’m bald. I think I’ll stick to more reliable sources of luck, like the five strategies I suggest in this article.



[Brian Tracy](#) once said, “I’ve found that luck is quite predictable. If you want more luck, take more chances. Be more active. Show up more often.”

[Elivahy Goldratt](#) said, “Good luck is when opportunity meets preparation, while bad luck is when lack of preparation meets reality.”

Luck is commonly associated with chance, but it turns out that there are science-backed tricks to improve your luck. A decade-long piece of research by psychology professor and author of “[The Luck Factor](#)”, [Richard Wiseman](#), suggests that one’s actions, mindset, and behaviours can influence and increase their likelihood of experiencing good fortune or luck. Wiseman interviewed 400 people who self-identified themselves as “lucky” or “unlucky” and found that those who continually had good luck, professionally and personally, had some common traits. They responded to situations in similar ways.



Be open to new experiences

In 1928, amidst the clutter of his lab, Scottish physician [Alexander Fleming](#) stumbled upon a serendipitous discovery. A forgotten sandwich, nestled near a staphylococci culture, revealed a curious sight: a mouldy halo engulfing a bacteria-free zone. Intrigued, Fleming embraced his good luck and embarked on a journey of experimentation, eventually unlocking the power of penicillin, the antibiotic that would one day save countless millions.

To increase your luck, be open and notice the opportunities that come your way. In an experiment conducted by Dr Wiseman, he observed that lucky individuals seem to consistently stumble upon opportunities that their unlucky counterparts often overlook. He handed out newspapers to both lucky and unlucky participants, asking them to count the number of photographs inside.

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Photo credit:AP/BBC Alexander Fleming’s mould samples sold at auction at Bonhams in London for £24,375.



Listen to your intuition

Gabrielle ‘Coco’ Chanel’s rebel story is a fascinating example of how intuition against the norm can create luck. She was the first designer to dare to take elements from menswear and use them to make women’s clothing more functional. At a time when jersey fabric was primarily used for men’s underwear, Chanel’s intuitive gamble to use it for women’s clothing was unconventional. Her intuition paid off, making her designs both popular and accessible. She said in an interview, *“Fashion is not simply a matter of clothes. Fashion is in the air, borne upon the wind. One intuits it. It is in the sky and on the road.”*

People who see themselves as lucky tend to be more decisive. They make swift decisions by tuning into their intuition. They’re more likely to take risks, take action, and expose themselves to new opportunities.



Use Optimism and Positive Expectancy



Photo credit P-I File

Blind optimism rarely brews success, but Howard Schultz’s journey with Starbucks is a classic tale of how optimism can fundamentally change one’s trajectory, turning challenges into opportunities and creating what appears to be “luck”. In his book *“Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time”*, he shared that he faced scepticism from investors. After the original Starbucks owners rejected his idea of creating a coffeehouse culture, Schultz decided to pursue the concept independently and go to investors. He was turned down by 217 of the 242 investors he pitched to.

In my funny resilience talk **“Bounce Forward with a Smile”**, I share five to seven tips on how to recycle the trash of adversity into fertiliser. Wiseman’s studies suggested that individuals who consider themselves lucky

often find something positive about an “unlucky” situation and transform setbacks into springboards for new ventures, fuelling their remarkable fortune. In general, these lucky people tend to possess a more positive attitude towards life, are happier, and notice and capitalise on opportunities that others might miss.



Be Flexible

As the COVID-19 pandemic erupted, Uber faced a major crisis, with plummeting ride-hailing demand due to lockdowns and travel restrictions. Recognising the increased demand for contactless food delivery, Uber Eats stepped into the spotlight. They invested heavily in marketing and promotions, attracting new customers and restaurants to the platform. They streamlined delivery operations, focusing on efficiency and contactless procedures, and expanded their offerings by adding grocery delivery, alcohol delivery, and partnerships with convenience stores.

“Lucky” folks often possess that invisible advantage. If plans change, they’re ready to pivot like a nimble dancer, finding luck in new circumstances.

The ability to adapt to changing circumstances is a key factor in capitalising on opportunities and overcoming and adapting to life's unpredictable twists and turns. People who see themselves as lucky tend to be more decisive. They make swift decisions by tuning into their intuition. They're more likely to take risks, take action, and expose themselves to new opportunities.



“Do it. Easier Done Than Said”

said [Lenny Ravich](#), the humorist and guru of optimism. *“People often hide behind the excuse of ‘Easier Said than Done’ to avoid taking risks, only to later regret missed opportunities, while the achievements of those who dared prove it to be a testament to the contrary.”*



Drawing by Savyon-li Liran

Being decisive is often linked to creating one's own luck, because it involves taking action and making choices that can lead to new opportunities and outcomes. Decisiveness allows individuals to seize moments, make the most of situations, and move forward, even under uncertainty. In contrast, unlucky individuals often have a knack for talking themselves out of opportunities, ignoring serendipity by focusing on reasons to avoid action rather than taking a chance. As Woody Allen succinctly puts it: “80 per cent of success is showing up.”



Photo credit:Valentyn Ogirenko | Reuters

In the early 1990s, PepsiCo was facing stiff competition in the beverage industry. Indra Nooyi, a rising star who later became the CEO, was brimming with vision. Recognising the need for diversification into healthy food and beverages, she zeroed in on Tropicana, the undisputed king of orange juice. Nooyi led the charge in convincing PepsiCo's board of directors to acquire Tropicana, despite some initial resistance. She saw Tropicana as a strategic fit that would complement PepsiCo's existing product lineup and provide a stronger foothold in the health and wellness sector. Her decisiveness came through in the final negotiations. When the acquisition was on the line, Nooyi said, *“We are buying it. Period. If we don't buy it, I'm not sure we have a future in juices.”*

In conclusion: If you're reading this, you're luckier than many. There are at least 7 billion people for whom access to electricity, computing, and the internet is a privilege, one that eludes the countless people worldwide who lack even basics like housing, personal safety, and clean water.

In the tapestry of life, luck isn't merely a whimsical stroke of chance but can serve you as a skilful embroidery of attitude, action, and awareness.



The little risks you can take to increase your luck
3,352,645 views | Tina Seelig | TED Salon: Singtime Initiative • June 2018

As Dr Tina Seelig from Stanford shared in her famous [TED talk about luck](#): *“Luck is rarely a lightning strike, isolated and dramatic. It’s much more like the wind, blowing constantly. Sometimes it’s calm, and sometimes it blows in gusts, and sometimes it comes from directions that you didn’t even imagine.”* Therefore, we need to use our “sails” through tiny behaviours of taking small risks that catch these winds of luck, thereby creating our fortunate circumstances.

Lucky by Design elucidates the essence of luck as not just serendipity but the offspring of preparation meeting opportunity. By embracing openness to experiences, listening to intuition, wielding optimism, flexing adaptability, and choosing decisiveness to take risks, we can architect our own fortune.

Benjamin Franklin, in his renowned Poor Richard’s Almanack, revived the profound quote: “God helps those who help themselves.” But helping ourselves goes beyond self, because we nourish our soul when we can share our luck.

Growing up in a loving, modest home, my parents, who were resilient refugee holocaust survivors, instilled in us profound lessons through their hard work and generosity. Despite the need to be prudent, they consistently felt lucky that they were able to give to us and others.

Whenever we expressed gratitude to our dad for purchasing something for us, fully aware of the effort and sacrifice behind it, he would respond, ***“Just bless me that every time I open my wallet, I have something to give to others.”***

Embracing this wisdom, let us bolster our fortune by aiding the less fortunate, thereby granting them the opportunity to improve their luck. This act of service not only enhances our lives but also upholds our duty to nurture a better world for all of us. **EBI**

ABOUT THE AUTHOR



Avi Liran (CSP, MBA) is a Global Chief Delighting Officer, an economist, author, humorist, and energetic motivational and twice TEDx speaker. Avi goes above and beyond to deliver tangible results to organisations, creating delightful customer and employee experiences. As a beacon of Contagious Positivity, he’s celebrated for leading businesses towards profitability and people’s success with a smile.

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The concept of enduring happiness as a panacea to work/life goals

Alignment of core values with work/life objectives

by Simon L. Dolan (Alias Dr. Simon)

As the human need for constant happiness increases, it becomes commodified – as a goal to be achieved through external means – thereby perpetuating a culture of consumerism and materialism. This article analyses happiness as a culmination of living our truest values, allowing each individual to find their path to it.

The concept of happiness has become a buzzword in recent years, aiming to overcome all individuals' misery, whether it is felt at home, at work, or in the community. After all, who does not want to be happy or to become happy? Happiness as a concept can be compared to the brightness and warmth of the sun. Do you know anyone who expresses negative feelings or attitudes against the sun? Happiness is often oversimplified as a state of being that is universally desirable and easily attainable. The comparison of happiness to the sun, with its connotations of brightness and warmth, serves to perpetuate this complex concept.

Happiness, often portrayed as the ultimate goal and solution to all of life's problems, is mistakenly equated with an absence of suffering or difficulty. This idealisation of happiness as a cure-all ignores the complexities of human emotions and experiences.

While it is commonly believed that happiness is a panacea, a closer examination reveals this notion to be oversimplified and potentially dangerous. Happiness, often portrayed as the ultimate goal and solution to all of life's problems, is mistakenly equated with an absence of suffering or difficulty. This idealisation of happiness as a cure-all ignores the complexities of human emotions and experiences.

The pursuit of happiness as a cure-all can lead to unrealistic expectations and a constant striving for an unattainable state of being. The pressure to always maintain a facade of happiness can be detrimental to mental health, as it discourages individuals from acknowledging and processing negative emotions. This can result in a suppression of authentic feelings and a disconnection from one's true self.

Furthermore, the belief that happiness is a magic bullet can perpetuate a culture of toxic positivity, where individuals are expected to always remain upbeat and optimistic, regardless of their circumstances.

This can invalidate the very real struggles and challenges that people face, making it difficult for them to seek support or address underlying issues.

Additionally, the pursuit of happiness as a panacea can overlook the importance of a range of emotions in personal growth and resilience.¹ It is through facing and overcoming adversity, and experiencing sadness and pain, that individuals can develop strength, empathy, and a deeper appreciation for life's complexities. By only valuing happiness, we limit our capacity for emotional growth and self-understanding.

The concept of happiness has undeniably become a lucrative industry for consultants, self-help gurus, and lifestyle brands seeking to capitalise on society's perpetual pursuit of contentment. The commodification of happiness has transformed what was once a deeply personal and subjective emotion into a marketable product, packaged and sold to the masses under the guise of self-improvement and fulfilment.²

Consultants peddle their services, promising to unlock the secrets to lasting happiness, offering workshops, seminars, and coaching sessions that often come with a hefty price tag. These individuals position themselves as experts in the field of happiness, claiming to possess the knowledge and techniques necessary to guide others towards a more fulfilling life. However, the very act of monetising happiness undermines its intrinsic value, reducing it to a mere commodity that can be bought and sold like any other product.



Millennials say they need a salary higher than half a million dollars to be financially happy. Some people think money can buy happiness. Millennials say they need a \$525,000 salary to achieve financial happiness, the highest among all generations, according to a recent Empower survey conducted by the Harris Poll.

Millennials, the generation born roughly between 1981 and 1996, far outpace the other generations with their salary desires. Their desired salary is more than triple that of Gen X, which had the next highest salary needs of any group. Millennials are also at the prime age for several major financial decisions, such as purchasing a home and having children, which could be related to their relatively higher salary demands for financial happiness. Respondents defined happiness in a variety of ways, including paying bills on time, living debt-free, affording everyday luxuries without worry and owning a home. "Millennials are the generation of those who encountered the harsh reality of the American Dream myth."

Moreover, the relentless promotion of happiness as a goal to be achieved through external means perpetuates a culture of consumerism and materialism, suggesting that true contentment can be attained through the acquisition of material possessions or the pursuit of superficial pleasures. This narrow and superficial interpretation of happiness fails to acknowledge the complexities of human emotions and experiences, reducing a deeply personal and nuanced sentiment to a one-size-fits-all formula for success.

The industry of happiness consultants thrives on the insecurities and vulnerabilities of individuals who are constantly bombarded with messages that suggest they are not good enough or happy enough. By perpetuating the myth that happiness can be bought and sold, consultants exploit the very real and valid struggles that people face in their daily lives, offering false promises of a quick, fixed solution to all their problems.

In other words, the commodification of happiness by consultants and self-help gurus represents a troubling trend that devalues the true essence of happiness as a deeply personal and subjective emotion. Rather than seeking external validation or quick fixes, individuals should prioritise self-reflection, introspection, and genuine human connection as the keys to true contentment and fulfilment. Happiness cannot be bought or sold – it is a state of being that must be cultivated from

within, free from the constraints of consumerism and commercialisation.

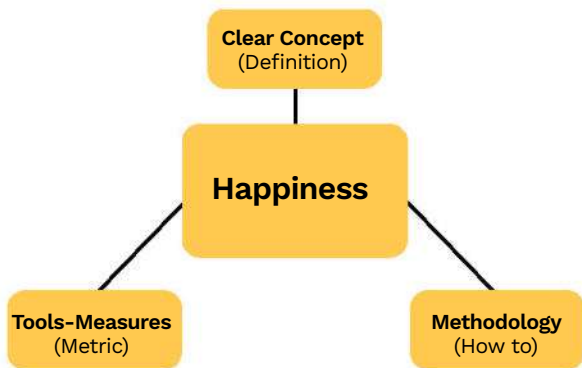
While happiness is undoubtedly important for overall well-being, it is not a panacea.³ Embracing a full range of emotions, including sadness, anger, and frustration, is essential for a truly fulfilling and authentic life. By acknowledging and accepting the complexities of human experience, we can cultivate a more balanced and resilient approach to navigating the ups and downs of life.

To enhance the professional selling of happiness, it should never be sold as a heal-all, and the concept should be accompanied with three complementary pillars:

- Clearly defining the concept so that everyone can understand, and prevent false expectations.
- Clearly develop a valid and reliable methodology of how to apply the concept to individuals, teams, or nations.
- And clearly refine a metric and tools to measure happiness. A concept without a valid scientific metric is not useful.



EXHIBIT 1: The three desired pillars embedded in happiness



HAPPINESS APPROACHED FROM THE ANGLE OF VALUES

When we embarked on the voyage into the world of values, we faced the same dilemma. We knew that values represent the DNA of our behaviour; that shared values represent the norm and the culture of

a unit, a community, or a larger society; and that the universe of values includes thousands of them, and they all seem to be important to some people. We also took extra care to ensure those values did not become another fashion or a panacea. Therefore, we have dedicated over 40 years to research in studying values, and have eventually developed the three pillars that convert it into what we call “Values in Action”: A concept, a methodology, and a tool(s).

All that is easier to say than do. So let’s reduce this complexity to something simple and doable. Our experience suggests that getting to really understand your core values can get you on the road to experiencing more moments of happiness in your life. We call this philosophy: “*Values in Action*”.

Values are intricately connected to moments of happiness, forming the very core of an individual’s sense of fulfilment and contentment. This relationship between values and happiness is a nuanced and complex one, requiring a deep understanding of the interplay between personal beliefs, societal norms, and individual experiences.

At the heart of this connection lies the idea that values act as guiding principles that shape our thoughts, actions, and decisions. They serve as a moral, economic, and emotional compass, directing

us towards what we believe to be important in life. When our actions align with our values, we experience a sense of authenticity and integrity that brings about a profound sense of satisfaction and joy.

Furthermore, moments of happiness are often closely tied to the fulfilment of our values. When we can live by what we hold dear, whether it be honesty, compassion, or achievement, we are more likely to experience a deep sense of contentment and well-being. This alignment between values and actions creates a sense of harmony and purpose that is essential for sustained happiness.

However, the relationship between values and happiness is not always straightforward. In a society that often places emphasis on external markers of success and happiness, individuals may struggle to stay true to their values in the face of societal pressures. This can lead to a sense of inner conflict and dissatisfaction as individuals grapple with the tension between societal expectations and their own deeply held beliefs.

Ultimately, the connection between values and happiness is a deeply personal and individualised one. It requires self-reflection, introspection, and a willingness to prioritise what truly matters to us as individuals. By cultivating a strong sense of self-awareness and staying true to our values, we can create a life that is rich in meaning and fulfilment, leading to moments of true and perhaps happiness.

Over the years, we have researched, tested, and developed methodologies and tools that can help everybody understand his/her core values and examine if they really live up to them in their daily life (work, family, leisure). In addition, we have developed sophisticated training content and corresponding methodologies and tools (both manual and digital tools) that help people get there. Our three-dimensional model has been labelled Dolan 3Es Triaxial Model of Values and is depicted in Exhibit 2.

The misguided notion that the values axis is synonymous with dimensions is a flawed interpretation that undermines the complexity and nuance

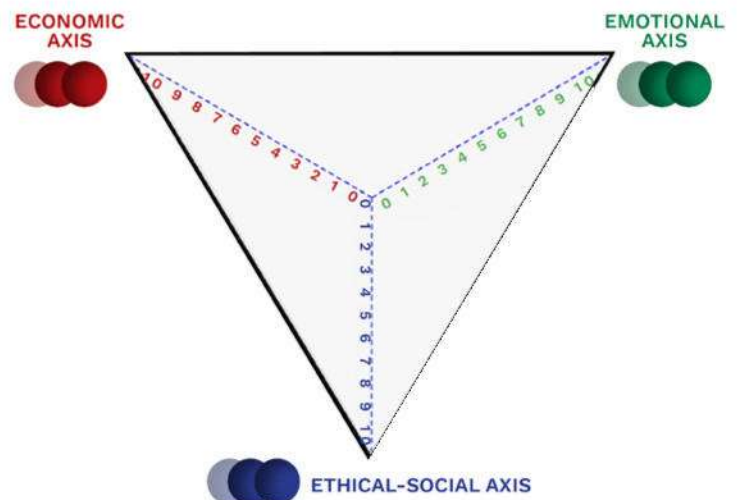
The relationship between values and happiness is not always straightforward. In a society that often places emphasis on external markers of success and happiness, individuals may struggle to stay true to their values in the face of societal pressures.

of the universe of core values. Our research shows that a reductionist perspective oversimplifies the intricate interplay of values and fails to acknowledge the inherent subjectivity and contextuality of core values that, for real decision-making (i.e. action), are limited and placed in a hierarchy. Here is a metaphor we often use to explain how people develop an algorithm for their values selection. Imagine you are hungry and enter a restaurant that offers a rich, free, buffet-style menu. Although you

are hungry, you know you cannot eat everything. Thus, you pick and choose based on your criteria (for example, a combination of products that you consider healthy for you but will satisfy your taste and satisfy your level of hunger). The same applies to the world of values. We do not act based on all the values in the universe but rather pick and choose selected core values, place them in a relative hierarchy (to minimise conflicts between them) and ensure these are aligned with

your definition of success. Our research shows that when this process occurs, people have a period of contentment, making them happier and more productive.

EXHIBIT 2: Dolan 3Es Triaxial Model of Values ©



Although living your core values is often touted as a pathway to happiness, this is by no means a magic solution, but the idea that adhering to one's core values will invariably lead to a fulfilling and contented life. We know that living by one's core values may indeed contribute to a sense of purpose and integrity; it is also an important path to what we understand is happiness. Human existence is marked by nuance, ambiguity, and contradiction, and the pursuit of happiness is a dynamic and ongoing process that cannot be reduced to a set of static principles. Thus, we prefer to talk about moments (or periods of happiness) that can be achieved in living our core values. While we realise that the latter needs to be tuned up from time to time, we also acknowledge that the concept of happiness requires a holistic and nuanced approach that considers the complexity of human nature and the multitude of factors that shape our well-being.



Training by ZINQUO in Mexico. Photos used with permission.


THE TRUE SECRETS LEADING TO WORK AND LIFE RELATIVE SUCCESS DEPENDS ON THE IDENTIFICATION, ORDER, AND ALIGNMENT OF YOUR CORE VALUES WITH YOUR OWN DEFINITION OF SUCCESS

The good news is that we have developed the methodology and tools that help people discover (or identify) their core values, measure them, place them in a hierarchy and ensure, through a coaching approach, that they live their values. We have been training coaches to help people understand what is really important to them and how to ensure alignment with their goals (*Coaching by Values*)⁴; we have been training managers to understand their managing philosophy and be more effective in developing shared values (which is our definition of culture) that are aligned with the corporate objectives (*Managing by Values*)⁵; and, we help leaders positively impact their followers in leading them into Tomorrowland (*Leadership by Values*)⁶.

CONCLUSION

While happiness is often portrayed as the ultimate goal in life, it is important to recognise that it is not a cure-all solution to the complexities and challenges we face. Pursuing happiness as a panacea can lead to overlooking the importance of experiencing a full range of emotions and addressing underlying issues that contribute to our overall well-being.



Living our core values, by contrast, is essential for achieving true happiness in life, as it allows us to remain authentic and aligned with our beliefs and principles, leading to a sense of fulfilment and contentment that cannot be achieved through superficial pursuits or fleeting pleasures. Only by staying true to ourselves and upholding our core values can we find lasting joy and inner peace in a world filled with distractions and temptations that seek to divert us from our true path. So, let us hold steadfast to our values and let them guide us towards a more meaningful and happier existence. 

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HOW TO NAVIGATE THE COMPLEXITIES **OF THE EU** **SUPPLY CHAIN LAW** by Bart A. De Mynck



The EU's new Supply Chain Law compels companies to ensure responsible sourcing throughout their global operations. This requires mapping entire supply chains, conducting risk assessments, and collaborating with logistics partners. While compliance incurs costs and complexity, it offers benefits like improved brand reputation, stronger supplier relationships, and a more resilient supply chain. This groundbreaking legislation sets a global precedent for ethical sourcing practices.

Supply chains have been faced with an ever-increasing number of regulations and laws. This creates new complexities for supply chains and requires companies to adjust their processes to remain compliant. Supply chain leaders that focus on human rights and sustainability have seen Europe play a leading role when it comes to new regulations in the last few years.

More recently, the EU has put pen to paper with the introduction of the **European Union's Supply Chain Due Diligence Directive (CSDDD)**, also referred to as the "EU Supply Chain Law", taking a bold step towards corporate accountability. This groundbreaking legislation, which is a first from a global perspective, is being finalised in 2024. This will require companies operating in the EU to start taking full responsibility for human rights and environmental abuses throughout their global supply chains.

Companies operating in the EU can expect the full impact of the CSDDD to be felt sometime between 2027 and 2029, depending on the specific compliance deadlines set by each member state. The current estimated timeline is to have an agreement by the European Parliament and Council of Ministers by late 2024. In February, there was a hiccup in getting to this agreement, as European Union countries postponed the decision on the proposed law in February, Germany and Italy having indicated they would abstain¹. Then, on 15 March, the European Union countries did agree to the EU Supply Chain Law, with 17 ambassadors from the 27 EU countries backing the law, and no votes against². The March approval of the draft legislation comes after the bloc failed twice in February to get it approved. Among the countries that objected to the original text were Germany and Italy, which feared it would hit their industries harder, due to their high numbers of small and medium businesses. There were also concerns that companies would remove themselves from the EU due to bureaucracy and legal risks³.

Now that the EU Supply Chain Law has been approved, the EU member states will have 2 years to transpose the directive into their national laws. Companies will then have a grace period (likely 1-2 years) to become compliant with the new regulations. But companies should not wait to act,

as this law will impact the business in several ways that require sufficient preparation time.

So, what are some of the **key impacts** of this transformative law and its potential impact on businesses?

The directive applies to companies operating within the EU, regardless of their nationality. Originally, the CSDDD impacted companies with 500 employees and a turnover of €150 million. Those numbers have been raised to 1,000 employees and a turnover of €450 million.

Large non-EU companies exceeding the same size threshold with activities within the EU market will also be subject to the law, which mandates them to undertake due diligence measures to identify, prevent, mitigate, and account for potential adverse impacts on human rights and the environment within their supply chains. This includes risks in their own operations, those of their direct suppliers and, potentially, even indirect suppliers. It further requires

companies to take steps to prevent, mitigate, or address identified risks. This might involve implementing measures like supplier codes of conduct, due diligence audits, and collaboration with stakeholders. Lastly, companies are required to report publicly on their due diligence efforts and the measures taken to address sustainability risks. This will increase transparency and accountability.

The law applies to **different aspects**. First, human rights, which refers to the fundamental rights such as freedom of association, non-discrimination, and prohibition of child labour and forced labour. Next, the environment, affecting issues like biodiversity loss, pollution, and climate change. And finally, companies are required to publicly report on their due diligence measures and establish accessible grievance mechanisms for stakeholders to report potential abuses. Failure

This groundbreaking legislation, which is a first from a global perspective, is being finalised in 2024. This will require companies operating in the EU to start taking full responsibility for human rights and environmental abuses throughout their global supply chains.

to comply with the law can result in hefty fines and exclusion from public procurement tenders. Additionally, civil liability lawsuits by stakeholders impacted by human rights or environmental abuses are possible.

The law represents a **significant shift** in corporate responsibility, requiring companies to invest in robust due diligence processes. It is no longer enough to be talking about certain actions; companies will need to have the due diligence and prove they are taking action. This will often lead to increased costs, as implementing effective due diligence across complex supply chains will require resources and expertise. While the law presents challenges, it also offers opportunities for businesses, such as enhanced brand reputation and improved supplier relationships. The law also promotes fair competition by holding all companies accountable for ethical sourcing practices.

The EU Supply Chain Law (SCSDDD) will compel companies to take a more proactive approach to ensure responsible sourcing throughout their supply chains. Companies can create **risk mitigation strategies** and operational adjustments for their logistics stakeholders following this legislation. Supply chain companies should collaborate with logistics partners to map their entire supply chain, including all tiers (direct and, potentially, indirect suppliers). This transparency is crucial for identifying potential risks related to human rights and environmental practices. They should further conduct risk assessments with logistics partners to identify potential environmental and human rights violations within their operations. For that purpose, they can utilise tools

The law represents a significant shift in corporate responsibility, requiring companies to invest in robust due diligence processes.

and methodologies like the OECD Due Diligence Guidance for Responsible Business Conduct.

Collaboration is key when it comes to mitigating risk. Supply chain companies need to collaborate with logistics providers to understand their existing sustainability practices. Engaging in open communication and encouraging them to implement responsible sourcing policies is a way to achieve collaboration. Another form of collaboration is through offering training programmes for logistics partners on responsible sourcing practices and compliance with the EU Supply Chain Law. Supply chain companies should consider partnering with their logistics providers to conduct joint audits of critical suppliers, allowing for a more comprehensive risk assessment.

Further mitigation can be achieved through contractual measures and monitoring. Supply chain companies can integrate clauses into their contracts with logistics providers that require them to adhere to the company's sustainability standards and the EU Supply Chain Law. A robust monitoring system should be put in place to

track the performance of the logistics partners and ensure they are meeting their obligations.

Just as in other parts of the supply chain, **technology** plays a major role in supporting the changes necessary to comply with the EU Supply Chain Law. Supply chain companies should implement traceability solutions to enhance supply chain visibility and track the origin of materials and products more effectively. Data analytics tools can be used to monitor and analyse vast amounts of data related to logistics operations. This can help identify potential risks and inefficiencies within the supply chain.

The law will drive **several benefits** for supply chain companies. It will improve supply chain visibility, as companies will need to map their supply chains comprehensively and improve communication with suppliers. By strengthening risk management, potential abuses can be avoided and mitigated much earlier, reducing reputational



damage and legal risks. Supply chain visibility and risk management can be increased through innovation and collaboration. New technologies and collaborative efforts with industry peers can streamline due diligence processes. Using visibility data from platforms can increase the visibility and transparency of what is happening in the supply chain. The data can also be used to provide accurate reporting, allowing companies to be compliant with the law. The law will also reduce reputational risks by proactively addressing sustainability issues, which will help companies minimise the risk of negative publicity and consumer backlash. The law can further enhance brand image. Consumers have become increasingly concerned about ethical sourcing. Demonstrating responsible supply chain practices can strengthen brand image and customer loyalty, positively impacting revenues. And finally, the EU Supply Chain Law can improve supply chain resilience. Identifying and mitigating risks can lead to a more robust and sustainable supply chain, less vulnerable to disruptions.

Besides the benefits, the EU Supply Chain Law also comes with **possible challenges** for companies. Implementing due diligence processes and reporting requirements will incur additional costs. Mapping complex supply chains and identifying potential risks can be challenging, especially for companies with a global reach, possibly increasing supply chain complexity. The final challenge is the enforcement uncertainty, as the exact enforcement mechanisms of the CSDDD are still being finalised.


The EU Supply Chain Law is a landmark legislation with far-reaching implications for businesses operating in the EU. There are ongoing efforts to establish international frameworks for corporate due diligence. The UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises provide non-binding frameworks that some countries might leverage when developing their own regulations. Some regions might have different priorities regarding which aspects of supply chain impacts to focus on, such as human rights versus environmental issues.

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The EU Supply Chain Law is a significant development with the potential to reshape how companies manage their global supply chains. And while navigating the law's complexities might seem daunting, embracing its requirements can lead to a more sustainable and responsible future for both businesses and society. While challenges exist, proactive companies can leverage this opportunity to improve their sustainability practices, strengthen their brand image, and ensure long-term resilience in the face of evolving global regulations. 

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MODELS TO SCALE ESG METRICS AND DATA

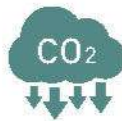


by Todd Cort

ESG data is scaling through new disclosure regulations. This model is inherently limited because, in the interests of comparability, the focus is on historic performance information and generic attributes of good management. These frequently miss the nature of the ESG risk. The second model, enabled by emerging technologies, will involve the mapping of risk exposure to modes of internalisation and to bespoke risk mitigation mechanisms.

Environmental, social and governance (ESG) data is entering its adolescence. The early days of ESG were characterised by a modicum of faith amongst investors that ESG performance data correlated with financial returns. We knew from empirical studies and meta-analytic summaries of the literature that considering ESG data in investment decisions was more likely than not to correlate with higher returns compared to benchmark¹. Investors piled in and the assets under management that considered ESG information grew², creating in some circumstances a self-fulfilling feedback loop of higher returns.

However, adolescence is characterised by a search for personal meaning and ever-growing responsibility and these challenges are indicative of where ESG data will need to evolve if sustainable finance is to reach its full potential. The challenge with our current approach to ESG data is that we are attempting to surmise financial risk based on proxy information. Our current set of data is indicative of financial risks and opportunities, but cannot be held accountable, because it does not directly measure that risk. Currently, the bulk of ESG fits into one of two categories: historic performance or structural indicators of management quality. Historic performance refers to metrics such as greenhouse gas (GHG) emissions or lost-time incident rates (LTIR). These backward-looking performance metrics are meant to be indicative of whether a company has been successful in mitigating risks compared to peers. For example, the company with low emissions compared to peers may be less exposed to a potential tax on carbon or regulated emissions cap. But these metrics are still only proxies for risk. GHG emissions does not tell us, for example, whether the company is nimble enough to shift emissions to less-regulated jurisdictions to avoid



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the risk of a carbon price. Nor does it tell us whether having lower emissions will shield the company from consumer backlash or litigation based on the perception of a high-emitting company.

Similarly, the descriptions of management structures are also proxies for the risk we are trying to understand. For example, we might ask for evidence that a company assesses ESG risks at the level of the board of directors under the presumption that aligning risk awareness with decision-making ability in the company will allow better action to mitigate these risks. However, the management structures that we seek (board-level decision making, stakeholder engagement, integrated enterprise risk management, standardised disclosure, performance data validation, certified management systems, etc.) are generic structures meant to address a wide range of risks. We know now that ESG risks manifest themselves to individual companies in a variety of highly specific ways. One company may experience rising costs from increasingly frequent and severe weather that disrupts supply chains. Another company may be taxed on carbon emissions. A third company might see their margins drop because of green products entering the marketplace. A fourth may experience massive



liability because their operations contributed to wildfires in an increasingly dry and water-stressed area. The mechanisms by which ESG risks accrue to the company are highly bespoke, and yet our data to understand the mitigation of the internalisation pathways continues to be generic.

In one sense, the focus on historic performance data and standardised descriptions of good management practice makes sense. Both of these data types have the advantage of comparability. Consider the asset manager of a large portfolio of companies, such as a pension fund. In the case of a large portfolio, we do not buy and sell based on idiosyncratic risk. Rather, our strategy is to minimise covariance of risk. If one company or sector drops in value, the rest do not. To understand covariant risk, we need comparable data. It is no wonder, then, that the current suite of disclosure regulations for ESG focus on narrowing the scope of ESG factors to the most material and then mandate consistent disclosure to allow comparison of risk across the portfolio. But this approach cannot directly measure risk. The result is that ESG factors will remain peripheral to financial information, because the causal link can never be established. We need look no further than the examples of Pacific Gas & Electric (2019), Volkswagen (2015), and BP (2010) for validation that strong historic performance data and solid disclosure of generic management system controls does not effectively measure risk from ESG issues³.

While this approach (standardised, comparable ESG information that is a proxy to risk and peripheral to core financial data) is one model of scaling, it is not the only one. The second model to scale ESG data is to shift to a more idiosyncratic risk measurement approach. The reality is that most ESG risks are currently rising and less well understood than traditional financial risks⁴. In order to scale ESG into a practical set of financially material data, we must answer the question: how can investors identify companies that are able to identify and prevent acute missteps in the face of these rising challenges?



In contrast to portfolio managers, the direct measurement of risk will be relevant to a wide variety of investor types. Fixed-income investors need ESG risk information that directly corresponds to debt default rates.

The answer to this question requires a three-part evaluation and associated data set:

1 We must measure the **exposure** of the ESG risk to the company. For example, companies with higher GHG emissions have higher exposure to a potential regulated cost on carbon. Companies with specialised supply chains have higher exposure to climate impacts.

2 We must measure the specific mechanisms by which the ESG risks **internalise** to the financial performance of the company. For example, a tax on carbon emissions will impact on the cost of goods sold. Discovery of human rights violations in the supply chain may impact on market penetration and revenue through consumer action.

3 Finally, we must measure the **mitigation** of ESG risks by looking at the *quality of management practices specific to those internalisation pathways*. For example, reducing GHG emissions does little to mitigate the risk of operational or supply chain disruption from severe weather.

This information is highly bespoke. The exposure, internalisation, and mitigation of ESG risks are unique to every company. Therefore, the path to scaling ESG information in this case is not through comparability, but rather through consistent understanding and structuring of risk analysis. While not perfect, our understanding of the exposures and internalisation pathways is relatively well developed. Our understanding of mitigation approaches, while difficult given the bespoke nature of the risks to each company, can be defined in terms of traditional risk control techniques⁵.


In contrast to portfolio managers, the direct measurement of risk will be relevant to a wide variety of investor types. Fixed-income investors need ESG risk information that directly corresponds to debt default rates. Insurance companies need highly specific risk insights at asset



levels against a variety of ESG issues from climate change and water scarcity to human rights and workers' compensation. Corporations seeking to develop investment strategies need specific risk information at the local and regional levels to better inform the placement of fixed assets. Investors seeking to outperform the market need unpriced, bespoke risk information to aid buy / sell decisions. Scaling of ESG information into financial markets depends on meeting the needs of these types of investors as well.

For ESG to grow out of its adolescence into a fully integrated set of financially material data will require both models of scaling. Standardised, comparable performance data and management system descriptions will be crucial for large-portfolio managers enabled by regulated disclosure rules. However, this model alone will not be sufficient. We will also need to develop highly specific risk assessment approaches to produce data that measures exposure, internalisation, and mitigation of ESG risks to individual companies. This will require the application of emerging technologies and increasingly complex raw data sets such as geospatial data, social media data, sentiment analysis data, and more.

The future of ESG, however, is not a question of "if" but "how". It is clear that ESG data in financial

decision-making will continue to grow. It is important that that growth not focus exclusively on scale through standardisation, lest ESG remain sidelined to traditional financial data. 

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