CARNIVAL CORP.'S CHIEF PROCUREMENT OFFICER JULIA BROWN TAKES A NEW APPROACH TO PURCHASING PRACTICES

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REINVENTING PROCUREMENT

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WINTER 2016
I left my previous life as a top executive after 25 years. I didn’t just quit—I reorganized my department to eliminate my job. It wasn’t a matter of being unhappy; it was a matter of reclaiming my own authenticity and integrity. People thought I was crazy. But if you want to transform an organization—or yourself—you don’t start something new on top of what’s old. You have to examine the current paradigms and then deconstruct them. That’s when reinvention begins.”

—SUZANNE GRUGAN, PARTNER, INSIIGNIAM
In an age of digital disruption—with ever-accelerating product life cycles and tech-savvy businesses eager to seize the day—nothing is sacred in business for very long. That’s why top performers are always looking for ways to reinvent themselves.

Wen Tong, head of wireless technology research and innovation at Huawei—the world’s largest telecommunications manufacturer—reflects the reinventive spirit of the times when he says in this issue of Insigniam Quarterly that change is happening so quickly that companies can no longer plan for a predictable future. “We have no way of knowing what the market will look like in 20 years and no way of knowing what the big revenue generators will be,” he says. “What we do know is if we can actually imagine and build the foundational technology for the next era, then that will be what sustains the future.” Huawei, which rapidly evolved from a one-room operation in provincial China to become one of the world’s great corporate innovators, is just one example in this issue of companies reinventing themselves.

Our cover story features Julia Brown, Carnival Corp.’s first-ever chief procurement officer, whose task is to reinvent the procurement process at Carnival, the world’s largest cruise ship operator. With the potential to deliver hundreds of millions of dollars in savings, procurement at Carnival has been elevated to a strategic function. Brown is an integral part of the executive team.

From France, we have the story of how Danone Eaux—the domestic sales and marketing arm for Danone’s five water brands—reinvented the relationship between management and its unions to transform the atmosphere at its plant outside Paris.

Insigniam Founding Partner Nathan Owen Rosenberg Sr. looks at one particular trend in business model reinvention: companies eliminating the distance between themselves and their customers. Any organization primarily focused on its distributors rather than end users better think again, he writes: “The time has come for executives in the C-suite to reclaim their companies and serve their true customers, not the middlemen.”

One of the greatest reinvention stories is Western Union, once synonymous with the telegram business. Rather than fade away, the company reinvented itself as the world’s leader in money transfer. Jack M. Greenberg, Western Union’s chairman, says nothing is certain in a time of rapid-fire technological change, although there’s one thing you can count on: a different set of competitors five or 10 years from now.

Greenberg is right. Every organization must be prepared to reinvent itself. Are you?
COVER STORY
REINVENTING PROCUREMENT
Julia Brown, Carnival Corp.’s first-ever chief procurement officer, takes a fresh approach to purchasing at the global cruise line.
By Steve Hendershot

TURNING POINT
Companies look beyond distributors to deliver value directly to customers—and reap the rewards.
By Nathan Owen Rosenberg Sr.

Q&A REINVENTING LEADERSHIP
When Bob Chapman, Barry-Wehmiller’s longtime chairman and CEO, stopped thinking like a boss and started thinking like a parent, he realized something revolutionary: People aren’t a cost of doing business. They’re the reason for it.
By Matt Alderton

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INNOVATION AT THE SPEED OF CHINA
China aims to reclaim its status as the world’s most creative economy.

By Richard Walker

“Innovation, like most things, starts at the top. If the top person doesn’t personify it, it’s not going to happen.”

—Vish Palekar, Mahindra

MAHINDRA SCOOOTS INTO AMERICA PAGE 36

On the Cover
Julia Brown, chief procurement officer, Carnival Corp., Miami, Florida
Photo by Jeffery Salter
2019
Projected release of Google’s self-driving cars

200
Number of people Apple has reportedly gathered to develop technologies for a self-driving car

$87 Billion
Projected worth of self-driving vehicle industry by 2030
Cars and computers are converging, and automakers are on edge. With vehicles increasingly networked and software-dependent, and self-driving cars on the horizon, “connectivity” was the buzzword among the big players at the 2015 International Motor Show in Frankfurt, Germany. The show took place in September as Asian, European and North American automakers brace for Google’s and Apple’s entry into their sector. The new competition may motivate established vehicle manufacturers to boost their performance and avoid being on the losing end of potential industry disruption.

Google has been working on a fully self-driving automobile prototype since 2009 and will have made a few hundred electric self-driving cars by the end of this year. Apple reportedly plans to enter the market in 2019 with a semi-autonomous electric car. In addition to technological expertise, Google and Apple have the cash to make significant investments in automotive research and development.

If these companies do become key players in the auto industry, traditional carmakers are concerned their role could be reduced to only producing vehicle hardware. “We do not plan to become the Foxconn of Apple,” Daimler AG CEO Dieter Zetsche said in Frankfurt, referring to the Taiwanese company that manufactures iPhones.

But industry dynamics are clearly evolving. Google is working with ZF, a large German automotive supplier of components, and other suppliers to source materials for its vehicle. In 2014, Apple CEO Timothy D. Cook reportedly visited a BMW factory in Germany that manufactures electric cars.

Meanwhile, established automakers are investing in more efficient operations and cleaner products. Daimler has reorganized its factories to help it introduce its Mercedes C-Class line to four continents. Toyota continues to lead the auto industry’s efforts for cleaner mobility, offering the widest range of hybrid vehicles—achieving the milestone of 8 million of these cars sold worldwide.

And in the U.S., the auto industry reached its highest rate of sales since 2006 while raising the fuel efficiency of the average car by nearly 30 percent higher than the average car in 2007.
STEPPING OUT WITH SMART SHOES

Athletic footwear keeps getting smarter. The latest entry into the shoe-with-a-sensor category pioneered by Adidas is Xiaomi, China’s rising electronics company, and sportswear giant Li-Ning.

The two companies formed the first collaboration between sports and smart technology in China—creating smart shoes competitively priced at about $32. A higher-end model costs about $63. The Li-Ning Smart Shoes, which hit the market in July, feature Xiaomi-supplied devices: built-in military-grade motion sensors that collect performance metrics and a Bluetooth fitness tracker that sends the data to the user’s smartphone.

Shoes have been going high-tech for decades. In 1984, Adidas introduced the Micropacer: the first smart shoe with a built-in sensor. Nike partnered with Apple in 2006 to launch the Nike+ iPod Sport Kit, which featured the first built-in wireless activity tracker for training shoes.

Adidas achieved another landmark in 2011 through the miCoach SPEED_CELL, the first device that captured information from 360-degree movement. Nike responded a year later by launching Nike+ Pressure Sensors, which had one function previous sensors lacked: rechargeability.

Xiaomi and Li-Ning introduced Smart Shoes amid fast times for the global athletic footwear market. It’s projected to reach $87 billion by 2020, up from $80.5 billion in 2015. The Chinese companies have something else going for them: few competitors near their price point. Nike began phasing out Nike+ Sensor shoes last spring, with only one model available for $110. Adidas continues to sell data-collecting devices but for more than twice the price of the Li-Ning Smart Shoes—not to mention that users also must purchase sensor-compatible shoes.

Western consumers looking for cheaper options will have to wait. Li-Ning has not said whether it will market its smart shoes outside of China.

REINVENT OR FACE DISRUPTION

For a business to disrupt the market—or just avoid being disrupted—executives must focus on reinvention, says a prominent entrepreneur and keynote speaker.

“All of us need an additional title, an unwritten one: that of disruptor or business artist or entrepreneur,” Josh Linkner, chairman and co-founder of Fuel Leadership LLC, told more than 5,000 business leaders at the 2015 American Society of Association Executives’ annual meeting and exposition. His company provides one-day leadership training conferences.

Having successfully established four technology businesses that collectively sold for more than $200 million, Linkner became “obsessed” with five different ways to drive innovative thinking and successful reinvention:

1. Get curious. Ask why to uncover overlooked assumptions or behaviors that usually hold potential for disruption.

2. Crave what’s next. Employ a future-oriented perspective to avoid falling into the trap of complacency or risk-aversion.

3. Defy tradition. Try new things so innovative experiences can become what make your business unique and successful.

4. Get scrappy. Businesses of all sizes should adopt a startup mindset to find unconventional solutions with limited resources.

5. Push boundaries. Avoid settling for incremental changes by thinking bigger to drive greater transformations.
GOOGLE’S NEW LOOK

After Google unveiled a new logo to mirror the clean and simple visual identity of its new parent company, Alphabet, typography and branding experts debated whether the makeover was charming or childish.

Regardless of the debate, Google executives assured people that the search engine’s overall mission remains unchanged: to make the world’s information accessible to every user.

When Google was founded in 1998, users accessed its search engine through a desktop PC. However, users now can choose from a variety of platforms, apps and devices—which presents challenges to maintaining a consistent brand look.

The solution? Create what Google calls an “identity family,” not just a visual rebranding.

Google’s new look is more than a simple sans-serif touch-up; the change reflects an evolution from a static logo to a system of expressions. Users not only know that they are using the world’s most popular search engine but are also visually aware of its different functions and capabilities.

New features across all Google products include an animated set of four dots that express different modes: listening, thinking, replying, incomprehension and confirmation; a colorful mic that shows up when a user is speaking; a four-color “G” that represents the logo in small contexts; and an original logotype that retains Google’s qualities in a mathematically and geometrically pure form.

Proponents of Google’s new look predict widespread acceptance. But others are less optimistic and predict that Google—just as Coke, Hershey and Gap have after failed rebranding gambits—will revert to its old ways.

TAKING OVER

The nine biggest mergers and acquisitions of all time.
A CHANGING WORLD
Disruptive forces like technology, an aging workforce and shifting global markets require a constant re-evaluation of business processes—and may even call for reinvention.

A GLOBAL DIGITAL PICTURE
The World Economic Forum measures countries’ application of information and communication technologies (ICT), which power productivity gains and social development. The 2015 rankings were determined through a network-readiness index comprising 10 political, economic, environmental and social metrics.

SINGAPORE’S REINVENTION STORY
In just a few decades, Singapore has emerged as a leader in ICT. It stands out in three areas in particular.

Metric 1: Environment
The country’s market and regulatory framework (1-7, 7 being the best)

Singapore: 5.9
New Zealand: 5.7
Finland: 5.6
U.K.: 5.5
Hong Kong: 5.5
Norway: 5.5

Metric 2: Impact
Economic and social impacts that stem from ICT

Singapore: 6.0
Netherlands: 5.9
Finland: 5.8
Sweden: 5.7
South Korea: U.S.: 5.6

Metric 3: Usage
Current and projected use of ICT by individuals, government and business

Singapore: 5.9
Sweden, Finland, Japan, Netherlands, South Korea: 5.9
Luxembourg: 5.8
Norway, Denmark, U.S.: 5.7
Switzerland, U.K., U.A.E.: 5.6
The portion of decision-makers expressing surprise at costs:

- **73%** B2B organizations
- **58%** Organizations with 3,000+ employees

**Big data costs have been driven by:**

- **31%** Unexpected infrastructure updates
- **29%** Unexpected hardware purchases
- **26%** New software requirements

**Overall, 49%** say big data has been more expensive than expected.

**41%** of ITDMs who **don't use big data** and don't intend to say cost is the prohibitive factor.

**THE DIGITAL DIVIDE**

The Internet and digital technologies have redefined the global business landscape—but their benefits have yet to reach billions of people.

- **60%** of the world's population has never gone online.
- **450 million** people can't access a mobile network.

DISRUPTION EVERYWHERE

**In energy:**
97% of global energy and utility executives expect a medium or high amount of disruption in their home market by 2020.

60%

**In health care:**
70% of global health care organizations will invest in consumer-facing apps and wearable tech by 2018.

65%

**In the workforce:**
More people are now leaving the Organisation for Economic Co-operation and Development-member workforce than joining it. **Yet 44% of companies have done nothing yet to address the issue.**

Companies identify these challenges in managing the aging workforce:

- 27% Understanding employee intentions
- 27% No budget/resources
- 22% Multiple stakeholders to manage
- 18% Higher priority items

REINVENTION GETS STUCK IN THE MIDDLE

A true reinvention calls for engagement at all levels of an organization—but it too often falters in middle management, which is perpetually frustrated by a lack of mobility and decision rights.

MOVING UP—OR NOT

**Only 3% of middle managers** are motivated to deliver results by the prospect of climbing the ladder—possibly because of a perceived lack of opportunity or a disconnect between hard work and promotions.

48% say they might get promoted in the next three years.

37% think they will not get promoted.

15% think they will be promoted.

61% Would not be satisfied at their current level for the next five years.

35% find it very important to move up.

40% find it somewhat important.
Disruptive forces like technology, an aging workforce and shifting global markets require management, which is perpetually frustrated by a lack of mobility and decision rights. A true reinvention calls for engagement at all levels of an organization—but it too often falters in middle.

**MOVING UP—OR NOT**

**Reinvention Gets Stuck in the Middle**

The World Economic Forum measures countries' application of information and communication technologies (ICT), through a network-readiness index comprising 10 political, economic, environmental and social metrics.

A **GLOBAL DIGITAL PICTURE**

In just a few decades, Singapore has emerged as a leader in ICT. It stands out in three areas in particular.

- **In health care:** 97% of global health care organizations expect to be transformed by 2020.
- **In energy:** 60% of the world’s population has no access to electricity. Major global energy and utility market by 2020.
- **In the workforce:** 54% of global energy and utility workforce than joining it.

**Not a pipe dream**

Though middle managers are not overwhelmingly confident in their ability to move up, they aspire to higher-level work at the following organizational levels:

- **Top functional executive**: 43%
- **Managing director**: 30%
- **Another management-level position**: 15%
- **Corporate officer**: 12%

**Sources of frustration**

Middle managers rank the following as their primary causes for frustration at work:

1. **Critical decisions made without their input**
2. **Changing organizational priorities**
3. **Immediate manager doesn’t listen**

**The C-suite’s opportunity**

Inspiration is one of the primary ways a leader can produce results. But to inspire managers, executives need to interact with them directly.

- **25%** of middle managers interact with the C-suite more than once a month.
- **16%** have between five and eight meaningful interactions per year.
- **13%** have two interactions per year.
- **12%** have no interactions per year.

Source: PwC; Global Power & Utilities Survey 2015; IDC Health Insights
Purchasing power was low. Logistics were crude. Last year, Alibaba, with 300 million customers and 80 percent of China’s e-commerce, enjoyed the largest initial public offering in history at $25 billion. Half of all packages shipped in China originate with a purchase on an Alibaba website.

That’s only part of the story, however. How Ma and his startup grew so fast and so big is the more compelling narrative. The short answer is he built a company that is culturally identical to the country in which it operates. Whereas American and European e-commerce platforms go after large companies, China’s economy is dominated by small businesses. As Ma said, he went fishing for shrimp, not for whales. As talent fled villages for the country’s big cities, Alibaba gave entrepreneurs a way to stay at home and make a living. Today there are 211 Taobao villages (the site that buried eBay in China) where 10 percent of households engage in e-commerce and generate in excess of CNY10 million annually.

Porter Erisman, a former Alibaba vice president, fluent Chinese speaker and one of the company’s only foreign employees, had a front row seat to the company’s awkward missteps and its eventual success. His book concludes with Alibaba and the 40 Lessons, among them such Confucian aphorisms as “Be as fast as a rabbit but patient as a turtle.” For China, it works, but the lessons, like so much ancient wisdom, are universal.
Elon Musk’s genius is not in dispute. He has transformed three well-established industries with ideas that were futuristic only five years ago. Genius is hard—and hardest, perhaps, on the people around the genius. Elon Musk’s genius is not in dispute. He has transformed three well-established industries with ideas that were futuristic only five years ago.


Genius is hard—and hardest, perhaps, on the people around the genius. Elon Musk’s genius is not in dispute. He has transformed three well-established industries with ideas that were futuristic only five years ago. Tesla and the all-electric car; SpaceX and accessible interstellar travel; and SolarCity and affordable solar energy have upended the automotive, aeronautic and energy industries with innovations that no one thought possible. None is a single invention but a self-supporting ecosystem that simultaneously creates a product and an industry to go with it. At a time when Silicon Valley seemed able to give us nothing more innovative than 140-character communications platforms, Musk came along and blew away the cobwebs and the doubters.

He is a difficult and driven man who inspires tremendous loyalty and animosity in equal measure. He attracts the best talent—but he cannot tolerate less than almost superhuman standards. It’s as if he alone understands that mankind’s days are numbered, and only the impossible will save us. Musk made all his electric vehicle patents open source, for instance, not as a publicity stunt but because he sincerely believes carbon emissions will choke the planet. He wants lots of people to make electric cars to save us from that fate. The idea has an attractive idealism except for the whiff of infallibility that hangs over it, making much of what Musk does difficult to swallow. These are not purely business motives but the fulfillment of his urgent worldview.

Ashlee Vance, a respected technology reporter and author of Geek Silicon Valley, tells both the story of the man and stories of his businesses and his vision: South African boy with a difficult childhood grows up to change the world. Nothing less will suffice. The reader fails to warm to the man while being astonished at what he’s doing.

—Rebecca Rolfes


Are you brave enough to recognize reality? That’s the central question the chairman of Fujifilm asks in this plain-speaking book. The follow-up questions are: Would you know what to do if you did? And would you have the guts to do it?

In 2000, Shigetaka Komori, who had worked for Fuji Photo Film his entire career, became president and COO. He had been warning senior management since the 1980s of the impending impact of digital photography. In 2001, global demand for color film fell off a cliff, and the price of cameras soon followed. By 2003, when Komori became CEO, he knew that only “drastic organizational reform” would suffice.

What he did—his so-called Second Foundation—was described as “putting on the brakes while stepping on the gas.” He simultaneously downsized the photographic film business while aggressively investing in new businesses. Armed with a quadrant map charting technologies and markets (thoroughly outlined in the book), he knew that Fujifilm needed to move into emerging markets like pharmaceuticals, cosmetics and LCD displays. He identified six priority business areas. As a result, Fujifilm suffered much less than its competitors. Although in Q3 of the company’s 2015 fiscal year, Fujifilm is down about CNY300 million from its 2008 revenue of CNY2.8 billion, its annual revenue has increased steadily since 2012.

The first half of the book outlines the nuts and bolts of that reinvention and the results. The second half is dedicated to Komori’s thoughts on leadership. With characteristic bluntness, Komori says things like “consensus leaders are useless” and “leading is more important than thinking about how to lead.” Most CEOs are less candid and more self-aggrandizing, neither of which is useful. This book, on the other hand, is for the brave few who see the future clearly and have the intestinal fortitude to confront it head on.

—Rebecca Rolfes
“When these corporate cancers—arrogance, bureaucracy and complacency—metastasize, even the strongest of companies can falter.”
—Warren Buffett, chairman and CEO, Berkshire Hathaway

“The only way you survive is you continuously transform into something else. It’s this idea of continuous transformation that makes you an innovation company.”
—Ginni Rometty, CEO, IBM

“The one thing I have learned as a CEO is that leadership at various levels is vastly different. As you move up the organization, the requirements for leading that organization don’t grow vertically; they grow exponentially.”
—Indra Nooyi, CEO, PepsiCo.

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<th>TED Talk: Where’s Google going next?</th>
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<td>Who Larry Page, co-founder of Google describes how technology can take ideas from improbable to possible.</td>
<td>Theaster Gates, potter and social activist, reinvented a blighted neighborhood in Chicago, shaping it into a hub of cultural activity.</td>
<td>Amy Cuddy, associate professor of business administration at Harvard Business School, says changing your body language can transform everything from how others perceive you to your testosterone and cortisol levels.</td>
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<td>Quote “I’ve been amazed—the more I learn about technology, the more I realize I don’t know, and that’s because of this technological horizon, the thing that you can see to do next. The more you learn about technology, the more you learn what’s possible.”</td>
<td>“[Like potters] we tackle the things that are at our wheel. We try with the skill that we have to think about this next bowl that I want to make. And it went from a bowl, to a house, to a block, to a neighborhood, to a cultural district, to thinking about the city, and at every point, there were things that I didn’t know that I had to learn.”</td>
<td>“Our bodies change our minds, and our minds can change our behavior, and our behavior can change our outcomes.”</td>
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128 YEARS OF REINVENTION

National Geographic went from a stodgy scientific journal to a multimedia powerhouse—while staying true to its mission and vision to educate the world about environmental, social and cultural issues.

- 1850: National Geographic Society is founded; first issue of National Geographic magazine is published.
- 1888: National Geographic Society is founded; first issue of National Geographic magazine is published.
- 1900: National Geographic Society is founded; first issue of National Geographic magazine is published.
- 1958: First National Geographic film, The Bones of the Bounty, airs on TV.
- 1997: National Geographic Channel launches internationally in partnership with Fox Networks Group.
- 2011: National Geographic launches special section on iTunes Store that allows users to browse, buy and download content—including apps, books, television episodes and music.
- 2015: 21st Century Fox buys National Geographic's media properties, including its cable channels, magazine and other media.
A LONG-AWAITED DÉTENTE

The notoriously recalcitrant relationship between French labor unions and company management prevents corporations from seeing a ready-made path to reinvention. Danone Eaux France redefined that dynamic.

By Rebecca Rolfes

Workers on strike. Blocked roads. No trains running, no garbage collected, gridlock, the economy at a standstill. That’s the stereotype of French labor unions’ handiwork. To call its relationship with management contentious is an understatement.

Reality is different but, in many cases, no less combative. In a 2012 Davos study of management-union cooperation in 144 countries, France ranked 137th. Danone Eaux France (DEF), the domestic sales and marketing arm for Danone’s five water brands, decided to change all that. In 2010, the company used the existing communications channel of its works council to both reinvent the union-management relationship and transform the work of the roughly 500 employees at its Rungis Complex, outside Paris.

“Social relations” at DEF were not openly hostile, but with France’s three major unions all represented, the process of winning union buy-in to management decisions was cumbersome, time-consuming and costly. To make matters worse, unions resented being relegated to the end of the decision-making chain, having no say in changes that affected the labor force. As a result, morale suffered.

Unions in France represent white-collar employees, as well as blue-collar. In fact, they represent the entire workforce up to management even though only 8 percent of French workers belong to unions, giving them power far greater than their numbers would suggest. The relationship is also governed by a strict set of rules and regulations and a formal structure called a works council (in France, a Comité d’Entreprise), a well-known part of organizational structures throughout Western Europe. Management presides over the council, joined by a secretary who represents the unions. If there are multiple unions, as is typical, each has a representative attending the group’s monthly meetings where they receive the same information supplied to shareholders and auditors. So far, so polite. In reality, works councils are rubber stamps at best and shouting matches at worst. They usually come at the end of the process and are largely confined to management telling workers what has already been decided.

To make DEF’s twin transformation a reality, many voices had to come together. Insigniam Quarterly organized a roundtable with the three main participants to give a clear picture of the problematic beginnings and the path to a trusting collaboration.
**IQ: How would you describe the management-union relationship before you started this project?**

**Van de Steene:** Danone had launched a culture transformation plan in 2008 called CODE (Committed, Open, Doer, Empowered/Empowering) with the goal of making Danone a great place to work and a great place to grow. Pushing that idea through with the unions had not gone well, however, primarily due to poor timing. The initiative was very large and ambitious, and the impact of the recession was still being felt. The relationship had been injured by the recession. In 2010, the company launched its Leadership College with Insigniam as a key partner, and transforming the relationship with unions was identified as one of 15 programs that would take the company into the future. At that point, I would say that the social relationship at DEF was favorable, relatively open but still in a fairly standard situation toward the unions.

**Pichon:** The relationship between unions and management isn’t simple, and it’s difficult to move beyond certain limits. That is not inevitable, however, and it seemed to me that the conditions at DEF came together in a way that allowed us to do something. Social dialogue in companies is too often artificial, since strategic decisions are usually already made before personnel learns about them.

**IQ: How did you start the process?**

**Pajeot:** The original idea was to do leadership development training, a program that the company was instituting around the world. We said, “Why not apply those principles to the union-management relationship?” and the unions agreed.

**Pichon:** We started with a two-day off-site meeting with three goals: to look at what the works council had done since 2008; to discuss how to transform DEF over the next three years in order to accomplish strategic goals and add to workforce development and well-being; and to define how the works council operates. However, these three goals gave way to working on how to break out of the traditional roles management and unions found themselves in.

**Van de Steene:** We saw an opportunity to use combined management relations and social relations as a lever for the company’s ambitions, to have unions and a social relationship that contribute more to the dynamics of the company. What is the mission, what is the vocation of the works council? What is the mission of social relations? We wanted to get into a much more constructive dialogue which incorporates unions at a higher level—to make them partners and not just a somewhat obligatory communications step that one is forced to undergo on either side. It was really the logic to break the old social relations in France and make them dynamic partners.

**IQ: What are those traditional roles?**

**Pajeot:** Each party has their own mindset and frame of reference, and no matter what happens, I filter it to match my frame of reference. So, if I’m in management, I think and see that unions are always trying to get more money and do less work, nothing more than that. Or, if I’m in a union, I think and see that the boss is always trying to get the maximum out of us and that they lie to us. These self-perpetuating patterns of thinking become the prevailing context. They keep reinforcing each party’s pre-existing beliefs.

**You have to break the vicious circles and get back to honest dialogue in order to build a relationship of trust. You have to be willing to find a new approach.**

—Yannick Pichon
and become never-ending cycles—we call them vicious cycles.

**Van de Steene:** Unions will always find that the project is not sufficiently worker-oriented or beneficial, and management will defend its project at all costs. So we are trapped in a sterile debate where nobody is really listening in a generous or active way and will remain somewhat anchored on a position. It is the history of trade unionism in France and social relations in France. There is a kind of filter in business: Management must always oppose the union and vice versa. At DEF, the relationship was not very confrontational compared to elsewhere, but I think that these filters were in place. If we anticipated by giving too much information to the unions, they would turn against management and curb projects. The initial position was always: “The less said, the better.” On the union side, they usually think management hides the truth, is not sincere or not ready to open the doors of communication. All projects, all exchanges start on the wrong foot.

**IQ:** How do you break out of that?

**Pichon:** Management has to stop “selling” projects, presenting them as *faits accomplis.* You have to break the vicious circles and get back to honest dialogue in order to build a relationship of trust. You have to be willing to find a new approach.

**Pajeot:** After a full day of listing all of the vicious cycles that the group found itself in, I said, “You are smarter than this. You are better than this. You can get to a more mature way of working together.” Then we had a dialogue the next day based in a new, co-invented context and used that to plan and establish the goals that we worked on over the next 18 months.

**Van de Steene:** I set up a schedule of monthly meetings to work through these issues with the ultimate goal of transforming the sales and marketing functions as the first project that union and management representatives would work on together. How do I build with them? Every step is to say, “I have the mindset to really work differently.” And once you’ve captured this spirit and you have the integrity to stick to it on both sides, suddenly it becomes quite easy to go into a different mode of communication, to speak honestly since the filters are removed. I think the key to success was to set new rules, have the integrity to hold a different state of mind, a different culture, in our operation, and then line up, week after week, month after month, the feedback sessions.

**IQ:** What has been the result? How did you measure the outcomes?

**Pajeot:** They dramatically reduced the number of back-and-forth negotiations necessary to approve these transformation projects. All those meetings cost a lot of money because they cost a lot of time. There was more efficiency, less management time wasted. Projects that would normally have been rejected by the works council were not rejected. People tried to work in a more modern way, stopped fighting, which is less stressful and creates a better work balance. The idea of ROI on a labor/social relationship doesn’t exist in France, but it can. We proved that.

**Van de Steene:** Our two main projects both advanced quite significantly. They were transformation of the sales force—that mainly occupied us for two or three

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“**The idea of ROI on a labor/social relationship doesn’t exist in France, but it can.**”

—Guillaume Pajeot
years—and improving the quality of work life, a program that was set up by Danone. For me, that was the best measure of performance. The second measure was the feedback from each party—management and unions—on how we lived this and how everyone had the feeling of being listened to and taken into account. These measures were made at different levels by very regular feedback that allowed us to remain anchored to the guidelines.

Pichon: We managed to establish a relationship based on mutual trust, to recognize the expertise and development of the participants, and to transform the network of communication as it had existed.

IQ: And were these successes expanded across Danone as a whole?
Van de Steene: It became a little pioneering laboratory that made a kind of model for the rest of the business units at Danone Eaux in France and more broadly in those of the entire Danone Group in France. Since the secretary of our works council was also the secretary of the group committee, he was in contact with the highest levels of the Danone Group. He was able to transmit it to other bodies and other social relations levels.

Pajeot: This raised a lot of interest among other leaders. People don’t understand how much pressure these union leaders get from their unions. Yannick was asked, “Did you sell yourself to the devil?” He had to face that.

IQ: Now that the project is complete, how would you characterize its success?
Van de Steene: The project is never complete. In addition to regular feedback, an annual off-site meeting is also needed to take the time to step back. Am I still on track? What is going well or going poorly?

Where should I make adjustments? What are the costs of the action plans put in place? The relationship was tested in 2013 when we had a much more difficult year, and there were workforce reductions. That was driven at the group level, so there was less capacity for DEF to appropriate the project and be able to affect it. This re-strained relations. When you are partners, you have a much more professional view of the business plan of the company, a mature look. You have to be realistic about the fact that the company is there to make money, and that if the company is profitable, it will be able to develop the business and the workforce at the same time. Closer relations are something fragile. They need to be constantly cultivated, always worked on and require permanent transparent communication.

Pichon: I have the profound conviction that social dialogue is not frozen in the French model. Union representatives are not adversaries but partners. I’m very clear on the fact that there is still a long way to go, that this effort is not exactly transposable everywhere. But I remain convinced that this is a long-term effort which will take several years but which will bear fruit.

Pajeot: The takeaway is that it’s possible to have the relationship between management and unions function as it should to fulfill its purpose. The works council should give management access to the workers and give the workers a way to make sure that they work on both the economic fortunes of the company and the development of the workforce. It’s possible to do that in France. What is the works council’s purpose, and how can we take that and create miracles out of it?

“We managed to establish a relationship based on mutual trust, to recognize the expertise and development of the participants, and to transform the network of communication as it had existed.”
—Yannick Pichon

“Closer relations are something fragile. They need to be constantly cultivated, always worked on and require permanent transparent communication.”
—Simon van de Steene
SUPPORTING, BUT CHALLENGING MANAGEMENT

As Western Union continues its transformation, Chairman of the Board Jack M. Greenberg doesn’t hesitate to ask management tough questions.

By Edmund O. Lawler

The final telegrams sent by Western Union in early 2006 contained happy birthday wishes, condolences, an emergency notice—and several messages from people attempting to be the last telegram sender. Western Union, once synonymous with the telegram, backed out of the dwindling business (only 20,000 telegrams were sent in 2005, at about $10 a message) and has re-emerged now as a global leader in international money transfer. Yet some people haven’t gotten the message.
“I’m occasionally asked: ‘Is Western Union still in business?’ or ‘What does Western Union do?’” says Jack M. Greenberg, non-executive chairman of Western Union’s board. For the 164-year-old company—one of the original 11 stocks listed on the Dow Jones Industrial Average—reinvention has been radical. And relevant.

It certainly is for the millions of migrant workers who use Western Union to send money home to their families. “Almost 300 million individuals are working in a country other than their own, and most of them are doing that to be supportive of their families,” says Greenberg, who has been Western Union’s chairman since 2006, when it was spun off from First Data Corp. into a standalone organization. With 2014 revenue of $5.6 billion, Colorado-based Western Union has a massive global footprint—a network of 500,000 third-party agents in more than 200 countries and territories. In India alone, there are 100,000 Western Union locations.

“In a lot of those countries, banks are not accessible to people because they may not have accounts. Or if they are in a foreign country, the bank does not speak their language,” says Greenberg, noting that Western Union agents are often multilingual. “There is a social utility about our business. It is helping a lot of people who may not be able to manage without that kind of financial service.”

Since being spun off, Western Union has reinvented its money-transfer services, going beyond its traditional consumer-to-consumer (C2C), cash-to-cash, cross-border model to what Greenberg describes as “an omnichannel model.” The new model also comprises business-to-business (B2B), consumer-to-business (C2B) and business-to-consumer (B2C) money-transfer services.

“Technology has made everyone think about what they should be doing,” Greenberg says. “Most companies today have a different set of competitors than they did 10 years ago. Technology is forcing even the most successful companies to rethink who their customers are and who they are going to be.”

**DRIVING REINVENTION**

President and CEO Hikmet Ersek and his executive team, in collaboration with the board, are driving Western Union’s omnichannel reinvention of money transfer. Ersek, named CEO in 2010, is a member of the 12-person board. Greenberg, former chairman and CEO of McDonald’s, and a veteran of such boards as Abbott, Hasbro, Manpower and Allstate, says the Western Union board has been both supportive and challenging of management in the face of the company’s makeover.

The board, Greenberg says, is involved in strategic discussions with management right from the start. “It’s a change from the old days when board members simply saw themselves as a kind of monitor and a ratifier of strategy,” Greenberg says. “Today, there is a much more open dialogue between the board and management about strategic choices.” The board asked hard questions at the outset about the creation of the business solutions division in 2010 and whether the business model of mobile money transfer was viable.

As the company considered establishing an office in San Francisco to attract the best minds in technology and data science for what would become Western Union Digital, the board was particularly proactive.

Speaking to his general board experience, Greenberg believes that management is used
to a more passive approach from boards. “Boards traditionally have not been involved in strategic decisions early in the process,” he says. “It wasn’t until plans were developed, and then the book was dumped on them. The board would take a couple of hours to review it.”

A former CEO, Greenberg knows it can be deflating when management presents a plan to the board only to be met with resistance and criticism. In the course of strategic discussions with management, there comes the time when the board must speak with candor about a particular person or situation, Greenberg says. “You try and do that with just the CEO. You don’t want to do that in front of his or her team.”

“Sometimes it’s tough,” he says. “Management works very hard on a project, and the board sits there and asks a series of hard questions. But I think you have to be careful as a board to be very supportive, unless there is something wrong. Your primary obligation, of course, is to your shareholders, and you have to take that very seriously.”

But if anyone understands the pressures faced by CEOs of public companies, it’s Greenberg—he led McDonald’s from 1998 to 2002.

“There is constant pressure, and you have many constituencies to keep happy,” he says.

Greenberg says Western Union’s executive team is receptive to the board’s feedback and strategic advice. “Well, most the time,” Greenberg says wryly, noting that he has developed a strong relationship with Ersek. “We talk a lot between board meetings. He bounces ideas off me, or he asks to have some ideas confirmed to be sure I’m comfortable with the way he and his team are doing things.”

**BUSINESS, REIMAGINED**

The board and the management team at Western Union have much to consider as the company continues to reinvent its money-transfer business model.

Western Union’s stock in trade has been C2C: consumers sending cash to friends or family across international borders. It represents 80 percent of its revenues. “For example, you want to wire $100 to your son in Kenya, and you want it there in 10 minutes,” says Greenberg. “A bank might take 10 days to get it to him and charge a lot of money.” Western Union’s third-party agents can be a currency exchange, a grocery store, a convenience store, a drug store and even a bank.

Under the consumer-to-business format, a customer can use Western Union to facilitate bill payments for utilities, auto loans and mortgages. C2B accounts for 11 percent of the company’s revenues.

“You have to be careful as a board to be very supportive, unless there is something wrong.”

—Jack M. Greenberg
With its new B2B initiative—the business solutions division—Western Union offers a payments system that manages various aspects of foreign exchange transactions. Representing 7 percent of company revenue, the division targets small- to medium-sized businesses, which may prefer to bypass their bank when transacting business with customers in another country. The business solutions division includes a B2C segment in which, for example, a non-governmental organization can use Western Union to send money for salaries and expenses to doctors and nurses working in Africa.

In addition to the omnichannel strategy, the board is fully supportive of management’s continued investment in technology, epitomized by the 2011 launch of its online and mobile division in San Francisco: Western Union Digital. It was expected to generate approximately $300 million in 2015 in revenue and has been growing more than 20 percent annually the last few years. Company-wide revenue has been growing about 3 percent to 5 percent in constant currency terms the last couple of years.

“We want to give customers more choices on how they transfer money. You can send money electronically from your computer, your phone or from an ATM,” Greenberg says. “Your family member on the other end of the transaction may want to receive it as cash, or they may want it credited to their bank account, or they may want to receive it in the form of a debit card. Part of the reinvention here is to try to change the business so that senders and receivers have all those choices. The business is fundamentally different from what it was 10 years ago.”

KEEPING UP WITH INNOVATION
The challenge for management, Greenberg says, “is to simultaneously innovate and keep the trains running on time.” But the board is fully behind CEO Ersek’s financial commitment to technology to sustain the company into its third century of operation. Greenberg believes the ongoing transformation of Western Union’s business model is the company’s surest path to prosperity—and its best defense against competitors.

Greenberg says he’s grateful for the opportunity to help reinvent a company with such a storied legacy as Western Union. Leading the company’s board has offered multiple rewards: “You feel good if you can add some value to the organization. The second piece is the relationships you form with other board members. They are talented people with interesting backgrounds. It’s intellectually stimulating. If you’re on a board and you don’t learn something, shame on you.”

“If you are on a board and you don’t learn something, shame on you.”
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PHOTO COURTESY OF FENNIE+MEHL ARCHITECTS
In search of savings, Carnival Corp. elevates procurement to the C-suite,
In search of savings, Carnival Corp. elevates procurement to the C-suite, hiring veteran executive Julia Brown as its first-ever chief procurement officer.

BY STEVE HENDERSHOT PORTRAITS BY JEFFERY SALTER
Carnival Corp. recruited veteran executive and longtime board member Arnold Donald to be its CEO in 2013, he quickly zeroed in on one aspect of the cruise company’s operation ripe for improvement: procurement. Carnival’s purchasing habits varied significantly across its largely independent cruise lines, which host 10.6 million guests annually and comprise nearly half the global cruise market.

Donald sought a veteran procurement executive up to the challenge. Fortunately, one of procurement’s brightest stars happened to just arrived in Miami, Florida, home of Carnival’s U.S. headquarters. “I knew if I could get her, it would be a huge win for us,” says Donald. “Containing costs is a strategic imperative for us, but we also need to make sure that everything we do is not just saving pennies. Effective procurement is critical in any organization, but it’s especially vital in a global business of this scale.”

Julia Brown had left procurement briefly after more than 20 years in that field, mostly spent at a trio of consumer-packaged goods giants: Procter & Gamble, Clorox and then Kraft Foods, where Brown helped lead a remarkable turnaround.

Named Carnival’s first-ever chief procurement officer (CPO) in March 2015, Brown now faces the challenge of streamlining Carnival’s purchasing across its 10 brands and better leveraging the $15.9 billion company’s bargaining power as a high-volume buyer. “We want to make sure we’re important enough to our suppliers that they treat us as a customer of choice,” she says.

For Brown, procurement isn’t as simple as finding reliable providers with the lowest-cost bid. There’s a balance to “bringing value by making the right kind of deals and arrangements that create an advantage for our company and also delight our guests,” she says.

Reinventing a procurement process depends on the overall business strategy, Brown says. “What creates a source of advantage for us? What do our guests want? What is important to our stakeholders? I typically will focus on the large, strategic spends to ensure that we are leveraging best practices within and across industries. In most cases, there will be an opportunity and a case for change. Then I design a program to include elements of value, delivery and governance with clear change management. And communication is key.

“To drive momentum, I look for quick wins that offer high impact and low effort to gain organizational buy-in and alignment. The best transformations are done when the teams can say, ‘We did it ourselves.’”

That approach not only suits Brown’s mission at Carnival but also reflects an evolution in procurement practices around the world. Brown’s ultimate achievements will offer more evidence of procurement’s ascendant role in C-suites worldwide.

‘Julia Brown is first and foremost a powerful business executive,’” says Nathan Owen Rosenberg Sr., founding partner of Insigniam.

‘At the same time, I have never met anyone with stronger procurement and sourcing chops. While intensely focused on business results, she builds relationships across the organization and with the company’s vendors. She genuinely appreciates people and their
Brown, 46, arrived at Kraft in 2008 after CEO Irene Rosenfeld challenged her during an interview. Rosenfeld said she thought sourcing could be an advantage for the company during its turnaround. “She said, ‘Someday Harvard Business Review will write an article about this, and the storyline will either be that we did it or we didn’t. Either way, you get to be part of the story,’” Brown recalls.

And she was. During Brown’s first year as Kraft’s CPO, she delivered an incremental $250 million in savings and then helped integrate British chocolatier Cadbury after Kraft acquired it in 2010. At Kraft, Brown launched a program called SAVOR (Sourcing Alignment and Value through Organization Responsibility). “It was a holistic review of the spend across the enterprise, while building sustainable capability of the global sourcing team.” She said it allowed procurement to be considered a strategic function at Kraft. “In Year 1, SAVOR delivered an incremental quarter billion dollars to the bottom line, which enabled an earnings per share improvement of close to $0.20.”

Rosenfeld’s turnaround took hold, driving the stock price from a low of $21.13 to $42.50 in 2012, when Kraft split into two companies: global snack-maker Mondelez International and U.S.-focused grocery business Kraft Foods Group. (The stock price was $31 when Brown arrived.) Brown chose to follow Rosenfeld to Mondelez, the business with more global potential. “I had tremendous respect for Irene’s leadership and wanted to be a part of building a new global snacking powerhouse when Kraft split into two companies in October 2012,” Brown says. “Mondelez was a $36 billion snacking company. At the time of the split, 80 percent of the revenues were from outside the U.S. and primarily in the developing markets. Kraft,

contribution, which has them want to support her commitments.

“In less than six months, she has built strong relationships with the other C-suite executives and the brand presidents. Working across the organization, she has formed a Carnival sourcing team, made up of people who mostly do not report to her, that has committed to breakthrough results. This is her great strength: strong relationships with intense focus on accomplishment—not one or the other. I feel confident Julia will lead Carnival to the same kind of incredible results and value she generated for Kraft.”

Sailing Ahead
For Carnival, the operational challenges behind a successful voyage are immense. Consider its supply chain: Carnival is a major buyer in wildly diverse categories ranging from bed linens to comedians, mini-golf putters to port city tour guides. Then there are the mechanical and technological innards required to power enormous ocean liners as they journey from hemisphere to hemisphere. And to cap it off, there’s an imposing logistical challenge: Everything a cruise ship needs must be loaded or unloaded within an eight-hour stop at port.

“These are floating cities essentially, and everything you would need to run a city needs to be on board. And these cities are never in one place for more than eight hours. That level of complexity has been quite eye-opening.” —Julia Brown

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“Charting a Course

After about six months on the job, Brown says she’s still “in the diagnosis phase” and looking for opportunities for connections between the corporation’s brands. Even though she hasn’t unveiled her formal prescription, her sourcing plan starts with establishing group-buying connections among the 10 brands.

Build flexible bridges. Given the complexity and uniqueness of the brands under Carnival’s umbrella, assessing the enterprise’s spend cannot be a one-size-fits-all approach. “We’ve grown primarily through acquisition over the years, and until now, our brands have been quite independent,” Brown says. “My job is to find opportunities to leverage the scale on things that it makes sense to purchase together—either globally or regionally.”

Perhaps counterintuitively, Brown’s first move is not to consolidate all procurement under her purview. She is doing some hiring, but she’s leaving functional, brand-specific sourcing operations intact.

“We have some people [outside of the procurement team] who are doing a good job of buying, and I don’t think they need to be part of the procurement function in order to drive value,” she says. “In our business, it’s more important to focus on getting results, and you can do that by partnering and collaborating.”

Brown may leave some brand-specific sourcing operations intact—but they won’t be isolated. In the cases where she’s considering maintaining a satellite sourcing operation, she also is planning increased coordination and communication.

Create cultural alignment. There’s a philosophy and personality Brown hopes to cultivate both on her team and throughout the organization. As with many great corporate mantras, it’s alliterative: “My three C’s are curiosity,

at the time of the split, was a 100 percent North American grocery company.”

She moved to Miami in 2014 to lead Mondelez’s Latin American operations—and soon met Carnival’s Donald. His pitch was persuasive, describing a global operation ripe with potential for a skilled sourcing expert. And his industry sounded, well, fun.

“If I was going to return to procurement, the opportunity was going to have to be new, challenging and fun,” says Brown. “What’s more fun than selling experiences, memories and vacations?”

Brown, who was born in England of Jamaican descent and grew up in Jamaica and a small town in Saskatchewan, Canada, would be trading the consumer products industry after more than 20 years for the travel/hospitality industry.

“At Carnival, our focus is on exceeding the guest experience, so the role of our suppliers is to ensure that we are delivering high quality, on time. Sourcing is important as it links primarily to what our guests experience.”

“Courage means you don’t take the first ‘no.’ That’s the mindset I’d like to create.”

—Julia Brown
“MY THREE C’S ARE CURiosity, CONFIDENCE AND COURAGE.”

confidence and courage,” Brown says. “It’s the curiosity always to look for new ways to bring value and the confidence to seek new options that are game-changing. Courage means you don’t take the first ‘no.’ That’s the mindset I’d like to create.”

CEO Donald is convinced Brown is the right executive to streamline procurement at Carnival. “I had very high expectations, and she’s exceeded them,” he says. “She’s quickly endeared herself to people here and established herself as an expert such that people are clamoring for her involvement.”

Forge smart connections across brands. Though she’s leaving some brand-specific spending power in place, Brown is intent on forging alliances across the Carnival portfolio to create enormous purchasing power.

“We’re trying to focus on areas that are similar, where brands are more alike than different. Then, as we create groupings through that analysis, we can leverage our scale not just across those groups but the rest of the corporation.” She aims to use that collaborative power not only to procure advantageous pricing but also for other sorts of value.

“It’s about making sure Carnival is at a competitive advantage and using that to ensure we’re getting quality and that our suppliers can deliver to our ships when needed. And if there is innovation to be had, they are offering it to us first—and exclusively, ideally. All of what we do is with that in mind.”

The fruit of that competitive advantage can vary. It could, for example, be a unique port excursion designed specifically and exclusively for Carnival, such as a special museum tour in Rome. Or it could be a volume-pricing discount. One of Brown’s first bid processes at Carnival involved mattresses. When she started, each Carnival brand used a different mattress manufacturer with different specifications. Her team surveyed the brands to determine their distinctive guest profiles and quality specs, then asked manufacturers to bid on the whole of Carnival’s business—not with a single caliber of mattress but with a range produced by the same supplier that would accommodate the varying needs of Carnival’s different brands.

“Our team goes to the enterprise-supplier market with an improved spec and says, ‘We want you to quote on this in a way that puts you in a position to get the majority of our business,’” she explains. The initial bids have been promising, Brown says. “The indications are that this is going to be very positive from a financial perspective, a sustainability perspective, and also because it streamlines our supplier base.”

Pare the supplier list. When Brown started at Carnival, there were thousands of suppliers in the company’s database. Eighty-five percent of them earned less than $100,000 annually from Carnival—small accounts considering the breadth of its operation. Trimming the list to allow more strategic, bigger deals means better total value terms. So she and the team are reviewing the list and looking for opportunities to consolidate.

Delighting Guests

Less than a year into her tenure at Carnival, Brown’s return to procurement has her full attention: “I have a tremendous amount of work to do to create sourcing as an advantage at Carnival, and that is my main focus.”

She is focused intently on improving the experience for Carnival’s guests. “We will continue to innovate, to identify what’s coming next and what should be coming next,” she says. “It’s about delighting our guests from the moment they get on a cruise.”

JULIA BROWN’S CAREER PATH

2014-2015: Mondelez International—business transformation leader—Latin America
2012-2014: Mondelez International—chief procurement officer/senior vice president—global procurement
2008-2012: Kraft Foods—chief procurement officer/senior vice president—global procurement
2005-2008: Clorox—chief procurement officer/vice president for strategic sourcing and contract manufacturing
2004-2005: Gillette—director—global direct materials and strategy sourcing center of excellence
2001-2004: Diageo—director—procurement integration and logistics sourcing director
1991-2001: Procter & Gamble—variety of purchasing roles
Quick Hits

The Challenge:
Companies that focus on serving distributors risk jeopardizing customer service.

The Plan:
Assess what customers truly value—and take action, even if that means completely revamping supply chain processes.

The Execution:
Cut out middlemen that add no value; deliver value directly to customers.

The Result:
A complete business model reinvention that provides customers what they want, how they want it—and releases businesses from the obligation of pleasing distributors.
hoppers gripe that products are overpriced. Distributors munch away at profits. And companies are beholden to their MBA-approved understanding of how to deliver products to customers—ultimately siphoning value from the bottom line and their products’ end users.

It is standard operating procedure for many organizations. Companies from Caterpillar to Bic to Estée Lauder rely on their distribution chain to buy their products and bring them to market. In turn, stores like Wal-Mart and Neiman Marcus mark up their costs to make margins as distributors and supply chain managers.

Yet among innovative companies, there is a palpable movement underway to build their business models around delivering products and services that customers value, via methods that appeal to the end users of their products. These companies do not rely on distributors to be the stewards of bringing their products to market. Instead, they are creating essential and direct interaction with customers.

Upstarts like Harry’s and Dollar Shave Club are not only changing how customers buy razor blades, they are also changing how they manufacture and bring products to market. Established in 2013, Harry’s sells blades, razors and shaving cream directly to customers via an online subscription service for a fraction of what customers would pay in store.

Interestingly, the company raised $122.5 million from investors in 2014 and then spent $100 million to buy a 90-year-old factory in Germany that manufactures premium blades. The company now controls every element of its business. It built its business model this way not for the sake of being inventive, but because it understood what its customers value most: time, money and a quality shave. Dollar Shave Club’s direct-to-customer model also sparked investors’ interest, raising $75 million in 2015.

The message is clear: Instead of serving their customers, companies primarily focused on their distributors’ interests are serving their middlemen—who will end up controlling the business.

The point here is not to be naive or stupid about the relationship with the companies in the distribution chain. The point is that companies exist to deliver value to those who use their products or services and that the distribution chain, like the supply chain, exists to serve that purpose.

One way to cut this Gordian knot of a relationship is a complete business model reinvention. Reinvention does not begin with the question of how to make more money. The crucial question is, “What does my customer truly value, and how does my customer want to receive that value?” The customer on which this question is focused is the customer who buys and uses your product or service.

Breaking From the Norm
The norm in the contact lens business was for manufacturers to treat opticians, optometrists and ophthalmologists as the customer. These professionals were the arbiter of which brand and type of contact lens were prescribed. Looking for competitive advantage, Johnson & Johnson’s Vistakon (the parent company of Acuvue) broke from the norm and started building relationships directly with people who needed to correct their vision. Through social media and advertising to consumers, a data base of customers was built. Appointment reminders, certificates for free trials and annual purchase incentives were sent directly to consumers. The relationship with eye care professionals was still valued and nurtured, but the relationship that J&J had with its ultimate customer actually created new value.
Value Electrified

One company asking all the right questions—and delivering on what its customers deem valuable—is U.S.-based Tesla Motors Inc. The automotive and energy-storage company continues to make headlines for both class-leading electric vehicles and its company’s business model.

In 2014, Morgan Stanley called Tesla “the most important automaker in the world,” and in Q1 2015, the bank’s analysts suggested overweighting the target price for Tesla shares to $465, up from its previous level of $280. Morgan Stanley believes that the company will “forge ahead in the race for so-called app-based, on-demand mobility.”

With nearly $3.2 billion in revenue for 2014, Tesla’s growth has been in the fast lane since it was founded in 2003. In Q3 2012, sales of the company’s flagship model—the Model S—were 250 units. By Q2 2015, that number had grown to 11,532.

It’s impressive for a model that boasts a suggested retail price of $105,000 when fully loaded and is marketed in a highly competitive segment against brands like Daimler AG (Mercedes-Benz), BMW and Volkswagen Group (Audi).

But dismissing the sales volume as due to the car’s curiosity factor would be a mistake. In 2013, Tesla’s Model S not only received the highest owner satisfaction score in Consumer Reports’ annual survey—it earned one of the highest scores ever awarded: 99 out of 100.

Tesla’s Formula

Tesla knows what its buyers value: an uncompromised product. As Forbes put it, not only have the big three German automakers “wasted money on the blind-alley of plug-in hybrids, they are losing sales in the most profitable end of the luxury market to Tesla. ... Tesla can boast real innovation and customers with big money are trying it.”

Over the last three decades as a management consultant, I have sat in dozens of meetings in which executives have decided against doing something that would have been valuable to their ultimate customers’ interest, because the companies in their distribution chains would not have liked it. The cost would have been too great. (One interesting observation: In these companies that are handcuffed by their distributors, they usually call their distributors “customers” and their ultimate customers “end users” or “consumers.”)

When considering whether to reinvent your company’s business model, there is a litmus test that must be self-administered: How much would reinvention cost? And the potential cost is not always financial.

In the 1980s, I invested in and ran a company that designed and manufactured life-saving underwater breathing systems. Our primary product—imagine an air tank the size of a soda bottle with a small regulator situated on top of it—was designed to get a diver up safely from a depth of 100 feet.

It was a great product, but sales were anemic. Our distribution chain consisted primarily of dive shops that were doing a rotten job of introducing this new concept and product to the scuba divers.

The company’s founder, who had invented the product and was our head of operations, asked, “Should we sell our product directly to divers?” even though many of the dive shop owners threatened to stop selling the product if we went direct.

We spoke to divers on beaches and at lakes. We learned quickly that they loved the idea of our product and that we would sell many more units and make much more money going direct to divers. However, we also realized that customers needed instruction and some technical advice to use the product correctly and that a failure to effectively communicate our message could put divers at risk. We needed someone who knew the physics of diving and the mechanics of breathing devices—like the dealers who could provide sales support—to serve our customers.

In those early days, we decided not to sell directly to the end user and continued to rely on our distributors to bring the product to market. Were we leaving money on the table because the dealer cut into the profit? Yes. But it was the right thing to do for our customers at the time.

Years later, when the product had been improved and was more widely used and understood, the company began selling directly to divers at suggested retail price. Not only did direct sales grow, but sales growth to dealers actually accelerated.

Despite how it may seem, this is not truly in conflict with what is at the heart of the discussion: doing what is right for the ultimate customer—which may or may not mean selling to the customer directly—and structuring your business to deliver on that promise.

Going direct is merely a by-product of addressing that need if it makes the most sense for how your customers define value. For our diving customers in those early days, the cost was simply too high. We and they valued their lives more than anything else, and we could have jeopardized them by not relying on the counsel that an educated and well-supported dealer could provide at the point of sale. —Nathan Owen Rosenberg Sr.
Second, instead of offering its vehicles through a network of independently franchised dealerships, Tesla employs a direct sales model. Customers visit “stores,” not showrooms, in shopping malls and kiosks across the United States, Europe and Asia—owned and operated by Tesla employees, not independent dealers. This not only allows the company to control all aspects of the customer buying experience, it ensures Tesla can speed product development based on firsthand customer feedback.

Third, Tesla’s dedication to transparency has cultivated brand loyalty and a sterling reputation for customer support, even when things go south. In 2013, a fire involving a Model S raised questions about the car’s safety. CEO Elon Musk immediately took to social media and (with consent of the driver of the torched car) published his email correspondence with the vehicle’s owner to provide the public with a better understanding of the incident. Not only was Musk applauded for his swift and public response by the media, but his ability to instill consumer confidence boosted Model S sales 40 percent in Q2 2015 over 2013 levels.

Tesla has pinpointed what its customers value—the bottom line proves it. An uncompromised product, a unique shopping experience, transparency, and swift and competent customer service all add up to the brand’s stellar reputation and sales. And Tesla’s strategy is possible because the company truly understands its customer—the first step in business model reinvention.

Know Thy Customer
Compiling the data needed to make this connection with customers takes more legwork
than many companies are accustomed to. Typically, consumer information is culled from standard marketing surveys and focus group research. But these methods are part of the old model that delivers few new insights.

To dive fully into the customer’s world and effectively respond to those findings, companies must suspend assumptions about customers and listen freshly. Furthermore, it requires a genuine curiosity about customers to deliver what they deem most valuable.

Since 1970, Adidas has designed a new official soccer ball for each World Cup. In 2010, the company did not deliver the quality product players expected, and many of the game’s highest-profile stars publicly condemned that year’s official game ball—describing it as “dreadful” and “a disaster” for being hard to control and unpredictable in the air.

In preparation for the 2014 tournament, Adidas spent more than two years listening, observing and interacting with more than 600 of the world’s top players from 30 teams in 10 countries. The company even enlisted NASA’s Ames Research Center to help inform the ball’s airflow dynamics. After all was said and done, the company unveiled the Brazuca—a six-panel ball (as opposed to the eight-panel one used for the 2010 games) featuring a more robust surface and deeper seams that allowed for greater stability in flight, giving players a higher level of control and precision.

Players, including England’s Wayne Rooney—one of the game’s biggest names and most outspoken critics of the 2010 ball—celebrated Adidas for its efforts. In interviews, Rooney expressed his delight with the Brazuca’s level of refinement and overall improvements.

Adidas had dedicated an enormous commitment to not only re-examining 40 years of assumptions made about its customers—professional soccer players—but also the time, energy and resources to bring customer-driven improvements to its product. Like Tesla, the company focused intensely on understanding its customers. It went directly to the buyers of its products, spent time with them, learned from them and built valuable relationships.

The crucial question is, “What does my customer truly value, and how does my customer want to receive that value?”

Reinventing a business model cannot happen in a vacuum. Instead, internal teams of 10 to 30 people should be mobilized from across multiple functions and echelons of the business to lead and participate in brainstorming sessions.

Some possible questions explored in these mental modeling sessions might include:

- What if you wanted to double the price of your product?
- Who would be interested in that product, service or offer?
- How would you deliver that product to market?
- Does this address what your customers define as valuable—and how?

The drivers within these transformational teams will discuss which ideas seem likely to produce changes that can transform the business. As the blueprint takes shape, it might emerge that delivering greater value to your consumer means delivering it yourself—without a network of middlemen to facilitate bringing goods to market.

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Mahindra Scoots Into America

The Indian manufacturing giant launches a U.S. startup to design and build an electric scooter it hopes will transform transit in U.S. cities.

BY STEPHANIE KIM
am-packed city streets mean lots of wasted time and fuel for millions of Americans. According to the 2015 Urban Mobility Scorecard, congestion on city streets and highways caused U.S. commuters to collectively waste more than 3 billion gallons of fuel and nearly 7 billion hours last year. For every rush-hour commuter, this amounts to an extra $960 in fuel costs and 42 hours in delayed travel a year.

Seeing an unmet need, Indian manufacturing giant Mahindra Group formed an American team to build a small, inexpensive and eco-friendly alternative to street-clogging four-wheelers: an electric scooter. It’s a bold step for the $16.9 billion company, known for its SUVs, small aircraft and tractors. Its U.S. presence has been limited to sales of tractors and other commercials, although it seriously contemplated exporting its trucks and SUVs a few years back.

Mahindra GenZe, headquartered in California’s Silicon Valley, is the unit of Mahindra charged with executing the company’s urban scooter vision. GenZe is a combination of the words “generation” and “zero,” underscoring the company’s focus on providing transportation to future generations who value zero-emission vehicles.

Vish Palekar was personally tapped by Mahindra Chairman Anand Mahindra to lead the company’s urban market gambit. As president and CEO of GenZe, Palekar views the electric scooter as a potentially disruptive force in the U.S. transportation market. At $3,000, it’s dramatically cheaper than a new car and priced to match popular gas-powered scooters.

“Over the next two to three years, we’re going to see a lot of change in how cities and city planners are going to adapt and how consumers are going to get comfortable with electric vehi-
cles in every form,” Palekar says. “We’re going to see a transportation renaissance in the U.S.”

He says urban-dwelling millennials, who increasingly eschew car ownership, are prime targets for the nimble GenZe, which was unveiled in May 2014.

**Startup From the Top**

“The exciting thing is we’re a startup in a large company,” Palekar says. “That itself is an innovative business model, because most corporations have a huge amount of difficulty allowing startups to flourish, given their process-driven approach.”

Palekar says GenZe has recruited a talented, passionate team in the U.S.

“We made a conscious decision to be in Silicon Valley to tap into the innovation mindset there,” Palekar says. “And we made a conscious decision to be in Michigan because the talent and supply chain there is steeped in automotive expertise.” GenZe operates an engineering and manufacturing facility near Detroit, Michigan, the heart of the U.S. auto industry, as well as an area marketing and sales operation in Portland, Oregon.

Mahindra’s drive to help reinvent the urban mobility market in the U.S. comes right from the head of the organization. “Innovation, like most things, starts at the top,” Palekar says. “If the top person doesn’t personify it, it’s not going to happen. Anand Mahindra himself is a great innovator.”

The company’s verve for innovation is not only driven from the top but from its very center, Palekar says. “You really can’t find innovation unless you have a strong core. Most companies—especially startups—that just keep moving from idea to idea to idea, fail because they really haven’t created a core.”

Innovative ideas grow incrementally from Mahindra’s core, Palekar says, but they also arise in the so-called white space of a market, or gaps in existing product lines. “We need to have incremental innovation, because those are lower-risk wins. But we also know that we need white space innovation like GenZe, because that’s how you become a leader.”

**Finding Its Place**

After analyzing transportation habits in the U.S., Palekar and his team identified a vacant “middle space” in the automotive market that GenZe could occupy: a sweet spot between bicycles and vehicle-sharing services, and car ownership.

“People don’t necessarily want to own cars,” Palekar says. “They want to share, and they want to use different means of transportation. They don’t want to be held back because of unavailability of certain things.”

Through market research, GenZe found consumers wanted a different means of transportation for congested urban markets and created the GenZe 2.0—a 210-pound electric scooter that can travel a minimum of 30 miles and up to 30 mph on single charge.

Palekar believes the product will help con-

Congestion on city streets and highways caused U.S. commuters to collectively waste more than 3 billion gallons of fuel and nearly 7 billion hours last year.

Source: 2015 Urban Mobility Scorecard
“We need to have incremental innovation, because those are lower-risk wins. But we also know that we need white space innovation like GenZe, because that’s how you become a leader.”

—Vish Palekar
GenZe CEO
It’s called Mahindra Group for a reason: It’s not a centrally operated conglomerate. Rather, the firm comprises 10 companies operating under a single brand. Since its founding in 1945, Mahindra has evolved from a steel-trading company to a global industrial powerhouse serving 20 sectors with a presence in more than 100 countries and a workforce of more than 200,000.

Vish Palekar, president and CEO of Mahindra GenZe, says the company operates differently from his former employer. “General Electric is run as a conglomerate, which means that the chairman and CEO of the company is equally involved in operations across the company,” he says. Mahindra, on the other hand, is a federation of companies; individual businesses are empowered to chart their own course and each has its own board. Chairman Anand Mahindra is “more of a guidepost who stitches efforts together from a brand standpoint.”

Palekar describes Mahindra’s culture as less top-down than what he experienced as an executive at GE. “General Electric was probably more directive. Mahindra, on the other hand, is more collaborative and bottom-up.”

He finds his current role overseeing the launch of an electric scooter in the United States a bit spoiling. "It's just incredibly fun. But it's also a huge amount of responsibility. A large amount of money has been entrusted to GenZe, and we have been allowed to do certain things. It's humbling, in a way, to make sure the brand holistically represents everything that it should—GenZe is the torchbearer of the Mahindra brand in the United States.”

Charting Their Course
Mahindra Group gives its companies space to grow.
Still, he doesn’t see the scooter market as a zero-sum competition.

“It’s not just about the product. It’s about the solutions for urban mobility,” he says. “The market for these vehicles today is not about taking market share from anybody. It’s about growing the entire market. There is the need to support the scalability of a nascent industry.”

Learning to Lead

Palekar draws many of his leadership lessons from his tenure at General Electric last decade. “It’s an amazing company, where you learn how to run a business and how to work to win,” he says. “You don’t back off, because winning is not about just the home run. Winning is about every single—home runs come once you get the singles.”

Palekar, a native of India who has a Ph.D. in chemical engineering from the University of Pittsburgh, started at General Electric in 2000. His first role was as a product manager focused on emissions technology, and he worked his way up to president and CEO of GE Enterprise Solutions, India—his first CEO role.

However, after GE’s security automation business—which made up a large portion of Enterprise Solutions—was sold to United Technologies in 2009, Palekar was jobless and faced a pivotal decision: Should he stay in India, where he had little knowledge of running an Indian-based business, or move back to the U.S., where he was educated and launched his career? He decided to stay in India. “I said to myself, ‘Maybe there’s an opportunity to learn something here.’ I had never really worked in an Indian business. I had come to the United States at an early age to go to grad school.”

After Anand Mahindra sent him an email encouraging him to stay in India and work for his company, Palekar became CEO and director of Mahindra Cleantech—growing the solar company into a half-billion-dollar business within three years. Two years later, he became the senior vice president of Mahindra’s innovation program—reporting directly to the chairman. In 2013, Anand Mahindra asked Palekar to lead the GenZe project, and he moved back to the U.S.

Although GenZe has about 40 employees in Michigan and 25 on the West Coast, it’s a very flat organization. “That’s the beauty of a start-up,” Palekar says. “We don’t have anybody who can hide behind their desk. Everybody must stand up and contribute.”

Yet even with his varied executive experience, Palekar still considers himself a student. He’s never forgotten a formula he learned at GE: \[ L > C. \]

“If you can keep learning at a pace that’s faster than the rate of change, you’re always going to be ahead of the competition.”

—Vish Palekar
Innovation at the Speed of

A researcher works in a testing room at FiberHome Technologies Group in Wuhan, China.

PHOTO BY CHINA DAILY PRESS CHINA, FOTOPRESS VIA GETTY IMAGES
Often perceived as copycats, Chinese companies are taking innovation seriously—and building global footprints.

BY RICHARD WALKER
China is often seen as one large copying factory.

Taking technology from wherever it can find it—legally or not—to duplicate products and processes laboriously and expensively developed elsewhere. The country’s manufacturers let others carry the burden of innovation while reaping royalty-free profits—or so the story goes.

But inside China, the view is very different: Chinese businesses see themselves as natural innovators, not only copying but also adapting, refining and improving what the rest of the corporate world does while restoring China to its rightful status as the world’s most creative corporate economy.

“It’s true, many Chinese companies still perceive themselves as lagging on a global basis,” says George Yip, professor of strategy and co-director of the Centre on China Innovation at China Europe International Business School. “But Chinese companies understand the value and power of innovation. They are aware of where they stand in the hierarchy of global companies and the path they have to follow to rise up that hierarchy.”

But the path that ambitious Chinese companies follow is rather different from the one taken by many dominant Western companies, which see themselves as technology innovators. “The old pattern in the classic Western technology company is to say, ‘We are the technology creator, we are the vendor, we give the customer the technology—and the customer has to follow us,’” says Wen Tong, head of wireless technology research and innovation at Huawei. The company is the world’s largest telecommunications manufacturer, with $46.5 billion in 2014 revenue and more than 170,000 employees worldwide.

“For us, it is different. If it is a matter of technology innovation, the final success criterion is market success,” Tong says. “If you have brilliant technology that is not demanded by the market and doesn’t create value for the customer, then we don’t consider that to be innovation in our industry.”

It’s part of a philosophy that sees technological change now happening so fast that companies cannot plan ahead for a predictable future in the way they may once have done. “If you look at areas like wireless communication, we just don’t know what applications are going to be successful in the next generation of technology,” Tong says. “We have no way of knowing what the market will look like in 20 years and no way of knowing what the big revenue generators will be. What we do know is if we can actually imagine and build the foundational technology for the next era, then that will be what sustains the future.”
A TROUBLED COMEBACK

The Chinese can point to a long history of invention and innovation. In the 11th century, the most advanced piece of applied technology in the world could be found in the city of Kaifeng, one of the former capitals of China. The 40-foot-high clock of Su Song displayed astronomical measures as well as the time of day. It used hydraulic power driven by chain and a sophisticated escapement mechanism far more advanced than anything in the West. China also invented a range of agricultural tools such as cast plowshares and wheelbarrows, as well as paper, explosives, lacquer, synthetic pharmaceuticals and movable type—all before the 14th century.

Exactly why China fell behind the West in scientific research and product innovation is hotly debated. But for many Chinese, the point is that there is nothing remarkable about the idea of China as a world innovation leader. The Chinese have been there before, and many assume that soon they will return.

China’s “open door” policy designed to encourage investment and technology transfer was unveiled by leader Deng Xiaoping in 1978. The first foreign manufacturers in China were attracted by very low labor costs and attractive tax and customs treatment in what remained a largely agricultural economy. The last thing they expected was to be faced with competition from Chinese companies trying to undercut them, first in China’s domestic markets and then in the global market. However, that is what quickly happened. In Shenzhen, for example, the first of China’s special economic zones, manufacturing companies expanded 24-fold between 1980 and 1984. Many of the new companies were Chinese manufacturers trying to reproduce what foreign manufacturers did but at a lower cost.

This first wave of Chinese manufacturers was known as “shanzhai,” meaning “mountain bandits.” “These shanzhai companies started with nothing but a desire to emulate what already existed,” Yip says. “They copied brand-name products, from fashion accessories to phones. Sure, the products were cheap, and the quality was low, but customers did not much care so long as they were affordable.”

The mountain bandit companies took Western companies by surprise, used as they were to long product development cycles and painstaking market research. Simple and imitative as their early products were, the mountain bandits established a pattern that has remained characteristic of China’s corporate innovation philosophy. “Established global companies in China are often quite surprised at the speed with which local companies introduce new products to the market,” says Yip. “The product may not be perfect, but it doesn’t need to be—the Chinese just gauge customer reactions, and the product can quickly be succeeded by an improved model.”

As Chinese companies have grown larger and more sophisticated, the earliest approaches to innovation continue to resonate. “Chinese corporate innovation is different from the Western approach in a lot of ways,” wrote Bruce McKern in a draft of a forthcoming book, China’s Next Strategic Advan-
way from the kind of innovation practiced in the world’s top technology companies—the kind of organizations that Huawei competes with. But these companies do practice innovation on multiple fronts—not just in incremental cost-cutting on established products and technologies but also on business processes and science-based research designed to bring entirely new products to market. Still, China has not yet managed to home-design a commercial internal combustion engine or create a new product category like the smartphone or grow a premium brand that speaks to the global market. Is China really up to the modern challenge of innovation?

“You have to remember that there are some incredible minds in a company like Huawei,” says Professor Rahim Tafazolli, head of the 5G Innovation Centre at the University of Surrey in the United Kingdom, where Huawei is a leading corporate partner. “But the most important thing about the Chinese is they always want to work on the most ambitious and innovative things. For them, the whole point of collaboration is to find ways of bringing the most ambitious ideas to the point of implementation.”

Bjorn Debaillie says the Chinese have already proved they are highly adept at collaboration. “The Chinese have much more of a driven innovation mentality compared to the Europeans,” says Debaillie, a senior researcher at IMEC. The not-for-profit micro-electronics research institute in Belgium partners with Chinese companies, including Huawei, on next-generation communications technologies.

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—George Yip, Centre on China Innovation at China Europe International Business School

Measuring Up

Many leading Chinese companies are still a long
from McKinsey & Co., the contribution of innovation to GDP as measured by multifactor productivity in China has been falling. Multifactor innovation contributed almost half (40 to 48 percent) of GDP growth in the decade to 2010; in the following five years, it has contributed only 30 percent. However, multifactor productivity includes a wide range of change innovation factors, such as alterations in the structure of the economy, the cost of materials and the cost of capital. The shift of a large proportion of the labor force from low-productivity agriculture to higher-productivity manufacturing must account for part of the increase in multifactor productivity.

The decline in multifactor productivity’s contribution to GDP is not a sure sign that product and business process innovation is declining in China. But it does ring a warning bell that the GDP benefits of structural change in the Chinese economy may be waning and that more creative innovation may be needed to drive the economy forward in the coming years.

Investing in Innovation

In the past, Chinese companies have tended to innovate around their understanding of their market and their ability to take costs out of existing products and processes. That is a result of their tendency to prioritize customer needs over innovation for its own sake, McKern of Stanford says. “Chinese companies have very different approaches to the relationship between innovation and the market, to the organization of change,” he says. “They have learned how to innovate more cheaply than their global competitors, and they have also learned to build innovation processes in collaboration with their customers and to do it faster than their Western counterparts.”

But have they begun to develop the capacity for science-based innovation, the most challenging aspect of making the kinds of changes that drive increased productivity and GDP growth? The answer is an emphatic yes.

The company he founded was called Huawei. By 2012, when had overtaken Swedish Ericsson as the world’s largest telecommunications manufacturer, it counted 45 of the world’s top 50 telecoms as customers. Ren had already been ranked by Fortune China as the most influential business leader in China. The company is now one of the world’s biggest filers of new product patents, flowing from the company’s research and development centers in Europe, the U.S., Russia and India, as well as China itself.

In the space of a generation, Huawei has evolved from a tiny provincial operation into one of the world’s most dynamic corporate innovators.
Zealand’s Fisher & Paykel. It now operates a decentralized, worldwide innovation process. Self-managed teams set their own key performance indicators and are filing about 300 patents each year.

Huawei says almost half its employees are engaged in some form of R&D. The company now has more than 20 R&D centers located around the world, with locations including Silicon Valley, Germany, Italy, the U.K., France, Finland, India, Taiwan, Singapore, Ireland, Russia and China. This global capability has been long in the making: As long ago as 1999, the Chinese company began working with challenging and potentially the most profitable form of change in economies? Yip believes they have, and points to the increasing levels of investment that Chinese companies have made in foreign technology-rich companies. “The fact is that in contrast to China’s engagement with the rest of the world, much of Chinese investment in Europe is in manufacturing and services,” Yip says. “This is driven by Chinese companies looking for new markets outside China.”

Yip says technology acquisition is now a prime driver of Chinese corporate investment, citing companies like computer-maker Lenovo, which recently bought Motorola Mobility, and automaker Zhejiang Geely, which acquired Volvo from Ford. Perhaps more important than these wholesale corporate acquisitions is the growing Chinese investment in R&D capacity outside of China.

White goods maker Haier, for example, has acquired leading-edge refrigeration technology, primarily from the German company Liebherr, U.S. toolmaker Black & Decker and New Zealand’s Fisher & Paykel. It now operates a decentralized, worldwide innovation process. Self-managed teams set their own key performance indicators and are filing about 300 patents each year.

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Four Types Of Business Innovation

McKinsey categorizes business innovation in four ways—three of which China has mastered.

1. **Efficiency-driven** innovation involves process and input-cost improvements. China’s low labor cost advantage may be eroding—average minimum wage in China is now around twice the level in competitors like Vietnam—but Chinese companies have also shown they are experts in cutting production times and the costs of manufacturing processes. This is particularly evident in the innovation process itself; for example, the star product of the leading Chinese medical products company Yuwell is an electronic blood pressure meter that took three months to develop from conception to final product.

2. **Customer-focused** innovation is also natural territory for Chinese companies. It means solving the needs of customers through both novel products and business models. In China, being close to customers can mean anything from creating products like the slightly bizarre (but very successful) washing machine created by white goods giant Haier that can clean raw vegetables, to the kind of customer-led innovations that Chinese telecom company Huawei has become known for. In 2003, for example, Huawei was part of the supplier network for Dutch KPN (the national telecom provider), which was then building up its 3G mobile network. The Chinese company realized that while technology of the 3G base stations being installed around the country was not an issue, the size of the stations was. Huawei devised a way of splitting the base station components into two, making them easier and cheaper to install. Today, Huawei has one-third of the global market for these installations, and its base station design has become the industry standard.

“The essential part of innovation is that it is customer-centric.”

—Wen Tong
IBM to implement an integrated innovation process, one that has taken Huawei a long way from its one-room beginnings.

Huawei believes the customer-centered innovation approaches it favors may be more important than science-based innovation. (See sidebar: “Four types of business innovation.”) “The essential part of innovation is that it is customer-centric,” says Tong. “The technology and innovation has to be built around customer needs and creating value for the customer. We know that there are always going to be other companies that can offer a cheaper solution. Our approach is different, to offer the best technology and value for the customer. You can have really brilliant technology, but if it is not good for the customer, if it does not address the market, there is no point.”

According to Stanford’s McKern, the pattern of Chinese foreign investment demonstrates that major players in China are already shifting away from natural resources to the intellectual resources needed to build future technologies. “The received wisdom is that Chinese corporate investment abroad is all about acquiring primary resources in emerging economies,” he says. “While that has been a prime motivation in the recent past, today the reality is rather different—Chinese companies are buying the market access and the brands for competing in Western markets, as well as technologies they may still lack to round out their innovative capabilities.”

Their ambitions run higher than mere acquisition. Huawei, for example, runs a unit the company calls the Beethoven Lab—named after the deaf composer because Huawei wants the laboratory to be deaf to received wisdom and to work on what the company calls “stupid ideas.” These are the future technologies that Huawei believes will one day seem a lot less stupid.

The spending of vast sums by Chinese companies on imagining the future is a gamble. But the record so far suggests that many of China’s innovation gambles have a way of paying off in the long term. IQ

3 Engineering-led innovation is based on the ability to integrate technologies, the kind of innovation that aerospace and automotive companies use to gain competitive advantage. China has a record of innovation achievement here as well, in areas like the high-speed trains developed by the engineering companies CSR and CNR (which are currently in the process of merging). Chinese companies have built thousands of miles of high-speed railway using technology from Mitsubishi, Hitachi, Alsthom and Siemens, among others. The high-speed rail network has gained considerably from Chinese government investment, with $300 billion of spending projected by 2020. As McKinsey points out, successful engineering-led innovation in China tends to require substantial state backing.

4 Where Chinese companies have not succeeded in making a global impact is in science-based innovation—the kind of innovation that requires long-term investment in R&D and the kind of capital resources that can support product lead times of 10 or even 20 years. McKinsey points out that industries such as pharmaceuticals, bio-technology and semiconductor design may spend up to a third of their revenues on R&D and have the kind of capital reserves and long-term shareholders to support product development over decades.
Leadership: Reinvented

When Bob Chapman, Barry-Wehmiller’s longtime chairman and CEO, stopped thinking like a boss and started thinking like a parent, he realized something revolutionary: People aren’t a cost of doing business. They’re the reason for it.

BY MATT ALDERTON  PORTRAITS BY BRIAN BLOOM

Quick Hits

The Challenge: Traditional management methods created a workplace employees dreaded instead of enjoyed, stifling productivity and happiness.

The Plan: Approach the workforce as if it were a family, caring for employees as individuals.

The Execution: Create an internal curriculum to cultivate behavior from management to the C-suite that fosters community and relationships.

The Result: Improved morale, business performance and price per share.

“I won’t go to my grave proud of the machines I’ve built.”

It’s a bold statement coming from the chairman and CEO of Barry-Wehmiller. The $2 billion company manufactures and sells machines: packaging systems that bag pet food; machines that apply labels to cold medicine; processing machines that cut and bind paper for books; and centrifuges that separate plant and animal matter for use in chemicals, pharmaceuticals and food.

But for Chapman, the most important thing that Barry-Wehmiller builds isn’t sheeters, corrugators, palletizers, labelers or fillers. It’s leaders.

“I’ll be proud of the people we built—who we allowed to find their gifts, develop their gifts and be appreciated for their gifts. That is the foundation of a thriving business,” he says.

It’s a product of Chapman’s own business philosophy: Businesses don’t exist to make money. They exist to improve the world we live in. When they nurture employees, companies naturally make more profits. And that idea has proven itself at Barry-Wehmiller, which has maintained a pattern of 15 percent compound annual growth in revenue and share value since 1987. The com-
a traditional, top-down approach to management that prized mandated processes, dictated directions and canonized efficiency.

Profits rose. Spirits, however, fell.

In this interview, Chapman describes how he came to realize the reason—his employees felt controlled, minimized and not cared for. With this insight, he decided to demolish his leadership approach and rebuild it from scratch. He calls it Truly Human Leadership, or THL, which seeks to nurture employees instead of控制 them.

Chapman currently focuses on enabling executives to reinvent leadership at their companies the way he has reinvented it at Barry-Wehmiller. Now 70 and the author of a new book, Everybody Matters: The Extraordinary Power of Caring for Your People Like Family, he shared with Insigniam Quarterly his vision for creating happier people and a healthier world.

Company comprises more than 60 acquired holdings spread among 10 global subsidiaries. Against the odds, Chapman’s board agrees with his philosophy. The company is a rare breed that performs extremely well financially and simultaneously creates an enjoyable work environment for employees, says Barry-Wehmiller board member John Stroup, president and CEO of Belden Inc., a St. Louis-based manufacturer of networking, connectivity and cable products. “I’ve gotten very comfortable with the notion that engaged employees are always good for shareholders in the long run,” Stroup says.

When Chapman became CEO at 30 (his father passed away unexpectedly, leaving him the company), he had limited leadership experience—but a lot of education. Eager to win over the company’s shareholders, he applied the techniques he learned earning his MBA: although Chapman swears by his management philosophy, his board’s job is to keep him accountable and rooted in creating shareholder value.

“There’s been healthy skepticism,” says board member John Stroup, president and CEO of St. Louis-based Belden Inc., the $2.3 billion manufacturer of networking, connectivity and cable products. “I’ve definitely been in meetings where people have challenged Bob on the economic benefits of what we’re doing. Sure, it sounds good. And it feels good. But is it helping our shareholders?”

The conversation is ongoing—but the board so far is convinced that it is.

“Barry-Wehmiller acquires a lot of companies, and Bob almost never changes the people out when he does. What he does, instead, is he creates an environment where he gets a lot more out of the people who are there than the company did before it was acquired. He does that by treating them with respect, listening to them, making certain they can participate [in decision making], creating incentives for them and motivating them,” Stroup says. “A couple things have become obvious to the board, in terms of the tangible, economic value of this approach.”

First, Stroup points to retention. “Most companies that struggle with retention also struggle with creating shareholder value,” he says. “It’s rare that people leave Barry-Wehmiller voluntarily. It just doesn’t happen very often.”

Second, Stroup points to Barry-Wehmiller’s M&A track record. “We’re very acquisitive, and when you’re in that acquisitive mode you’re often competing for companies,” he continues. “The culture at Barry-Wehmiller is making it a lot easier for us to convince companies to sell their businesses to us rather than to someone else. Because as you can imagine, they care a lot about who their new owner is going to be.”

But Chapman’s leadership model can only work in the presence of sharp strategy and solid business acumen, Stroup says. “People sometimes think, ‘If everybody just treated their employees well everything would be great. I’m sorry to say, it requires more than that,” Stroup says. “Fortunately, Bob is a very good businessperson. He wouldn’t be able to do the things he does for his folks if he didn’t have such a great business and if he didn’t run it so well.”

**Board Buy-in**

If a company’s CEO is its heart, its board is its head. Barry-Wehmiller is no exception.

Although Chapman swears by his management philosophy, his board’s job is to keep him accountable and rooted in creating shareholder value.

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**Insigniam Quarterly:** You’ve said that the United States is experiencing a leadership crisis. What do you mean?

**Bob Chapman:** Eighty-eight percent of all people in United States feel they work for an organization that does not care about them. When people feel that way in the environment they experience every day for eight hours a day, they go home to their families and inadvertently treat their families as they have been treated at work.

The way in which we as employers are treating the lives that are entrusted to us every day is harmful. People may have a job, they may make a pretty good salary. But they lack any sense that who they are and what they do matters. That is the crisis we have in this country, and it exists because we’re not creating leaders.

**IQ:** If we’re not creating leaders, what are we creating?

**BC:** What I was taught in business school was management: If you were smarter than other people, you would become their manager. You would tell them what to do, and they would go do it.

[Since Henry Ford] we have become stewards of process. We worship process. Mass production led to dramatic growth in our country, but it was never about creating a better life for people. It was about creating value, profits and growth.

[Leadership expert] Simon Sinek says it perfectly: “In the military, they give medals to people who are willing to sacrifice themselves so that others may gain. In business, we give bonuses to people who are willing to sacrifice others so that we may gain.”

That is the problem.

Over the course of the ’80s and ’90s, through being a parent I realized that everything I had learned about management was wrong. What is leadership? It is the stewardship of those people who walk in your doors every day around the world, who give of themselves in service of creating value for all of your stakeholders.

Yet in business, people are often viewed as objects for wealth accumulation. I was taught that to be successful I needed a receptionist, an accountant, an engineer and a salesman. I was taught that I could be nice to them and pay them fairly. But I was never taught to feel responsible for them.

**IQ:** So, what changed? When did you learn to feel responsible for employees?

**BC:** My journey of leadership began in survival mode. Barry-Wehmiller was a 100-year-old business that had lost its way for the previous 75 years and just kind of existed in a very mediocre way. When my dad stepped into leadership in the ’50s and bought the company from the Wehmillers in the ’60s, he struggled to give it a foundation for the future. In 1975, he died suddenly. I had only been with the company six years, and the first person of significance I met after he died was our banker, who wanted out of our loans.

I subsequently had three defining moments. The first was in 1997. We were well into the process of doing acquisitions. I’d bought a company in South Carolina and flew down there to be there on the first day that I owned it. It was March of 1997, and you know what happens in every office around this country in March: March Madness. I walked in a little before the office opened and everybody was talking about their basketball team. They were having fun. But the closer it got to 8 o’clock when the office opened, you could see the joy go out of their body. I later said to myself, “Why do people have fun doing something that won’t make a material differ-

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—Bob Chapman
Barry-Wehmiller’s Leadership Checklist

Company leaders use this 12-point checklist every day to ensure they are executing Bob Chapman’s Truly Human Leadership philosophy:

1. I practice stewardship of the “Guiding Principles of Leadership” through my time, conversations and personal development.
2. I advocate safety and wellness through my actions and words.
3. I reflect to lead my team in achieving principled results on purpose.
4. I inspire passion, optimism and purpose.
5. My personal communication cultivates fulfilling relationships.
6. I foster a team community in which we are committed to each other and to the pursuit of a common goal.
7. I exercise responsible freedom, empowering each of us to achieve our potential.
8. I proactively engage in the personal growth of individuals on my team.
9. I facilitate meaningful group interactions.
10. I set, coach to and measure goals that define winning.
11. I recognize and celebrate the greatness in others.
12. I commit to daily continuous improvement.

IQ: How are the principles of THL manifested in the workplace?
BC: It’s not about writing a note to people on their birthday or sending flowers for the birth of a new child. It’s not about being nice. It is about profoundly caring for the stewardship of the lives upon which you have an influence. Barry-Wehmiller leaders actualize caring in many different ways, and we don’t tell them exactly how they should do so. What we do offer them is a daily reminder of the essential actions of good leaders. That’s our Leadership Checklist (see sidebar above), and it serves as a guide to how best to serve and care for those within their span of influence.

IQ: How is THL manifested in the bottom line?
BC: We were doing very well in terms of shareholder growth and value before we began this journey. But if you made a graph of our business performance as we began to embrace THL, the curve started to go up exponentially. We have a very unique share price that emulates the public markets. It’s called the EVA Methodology—Economic Value Added—and it’s calculated objectively compared to market fundamentals. That measure has gone up over 15 percent a year compounded for 25 years. So, we are seeing exponential growth as our people are able to

“Everybody that works for us is somebody’s precious child, and we have a chance to profoundly impact their lives.”
—Bob Chapman
One of the things we teach is learning to empathetically listen. The conflicts we have in our families, in our businesses, in our communities, in our country and in the world are the result of a profound lack of the capacity to listen empathetically to the needs of others. When you listen to people, you give them the greatest gift you could give anybody, which is validating that who they are and what they do matters.

It's a cycle. The good we do in the workplace gets amplified out in the world. IQ: Effecting that kind of change requires a redefinition of leadership externally as well as internally. What’s your message to fellow executives to get them to join your cause?

BC: We tend to treat business as if it’s all about processes and numbers. Our aspiration is to be a symbol of hope that you can care about people and still create value for all your stakeholders. We do not believe this is something Bob Chapman came up with or that Barry-Wehmiller came up with. We believe it is a gift that we have been given. It’s not ours to own; it’s ours to share—and that’s exactly what we’re out there trying to do. IQ

“We are seeing exponential growth as our people are able to express their gifts fully in an environment where they feel valued and safe.”

—Bob Chapman

express their gifts fully in an environment where they feel valued and safe.

IQ: How will THL survive in your organization after you leave it?

BC: We needed to create people who believe deeply what we believe and live the values that we are talking about. So we created our own university [within Barry-Wehmiller] to teach people the 12 things that you need to think about every day as a steward of the lives entrusted to you. We have 22 professors dedicated full time to teaching content around each of those 12 points.

IQ: How has “reinventing leadership” helped you move closer to your goal of changing the world?

BC: Seventy-four percent of all illnesses are chronic. The biggest cause of chronic illness is stress. And the biggest cause of stress is work. So, we’re basically killing people. We are destroying their lives because we are sending them home from work every day to face the realities of living in a world of great conflict, trying to raise kids in that world and trying to have a marriage in that world that is fulfilling.

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Marginals, Front and Center

Why organizations’ insider-outsiders might be the secret to building competitive—and cultural—advantage.

By Kelly Caldwell

The U.K. doesn’t understand fresh fish.

At least, that’s what one Japanese manager thought during her visit to Tesco’s U.K. locations, organized in response to the company’s faltering domestic sales. After the world’s third-largest food retailer lost 14-year veteran CEO Terry Leahy to retirement in 2011, its profits slipped for the first time in decades. Yet its Asian subsidiaries remained successful. Later that year, Philip Clarke took the helm, intending to discover what differentiated the Asian stores from those in the U.K.

The organization brought in leaders from Tesco’s Asian subsidiaries to teach and help innovate in the U.K. The initiative was developed with the help of Mary Yoko Brannen, a professor at the University of Victoria’s Gustavson School of Business in British Columbia, Canada. It revolved around the concept of “marginals,” or individuals who are simultaneously cultural insiders and outsiders.

Marginals fit into a broad picture of cultural belonging, defined by Brannen using five typologies (see sidebar). Marginals tend to be biculturals—meaning they identify with two cultures, often with a feeling of internal conflict depending on context. The term captures a sense of existing at the perimeter of belonging, but remaining, to some degree, excluded from it. Blond-haired and blue-eyed, Brannen herself grew up a marginal in her native Japan. Contrast marginals to “bridger” types, or cultural chameleons—biculturals who don’t experience internal conflict or individuals who have crossed cultures so often they don’t regard culture as a barrier.

Marginals’ lifelong experience inside a cultural or contextual tug-of-war means they’re keenly attuned to the contexts in which they operate. They tend to possess higher perceptual acuity and higher cultural metacognition than their non-marginal or bridger peers. As employees, marginals use those skills to open up opportunities at companies often otherwise ignored or missed.

Revealing Opportunities

Over the course of three months, Tesco’s Japanese managers were marginals in the context of Tesco U.K.: insiders because they were established within Tesco as an
enterprise, but outsiders because, being Japanese, they were culturally different from most of their U.K. counterparts and unfamiliar with the cultural norms that drove Tesco U.K.’s processes. As the managers observed Tesco’s operations, they offered insights into operational shortfalls and possibilities for innovation.

“We brought in nine managers who were at level three or four in the organization—there were five levels total—and we trained them how to be inside/outside ethnographers [those who study people and cultures] at Tesco U.K.,” Brannen says. The goal was to update Tesco’s sense of its own standards and processes through the lens of its Asian subsidiaries.

Brannen recalls a manager from Japan observing one of the London stores, which was opening a new fresh fish section.

“She was really excited because fresh fish is a big deal in Japan,” Brannen says. The visiting manager watched the fishmonger open his department, and after a while, approached him and asked about his training. The worker replied that he had previously worked in groceries and had been assigned to the fish section the week before. He’d been given only a few hours of training.

“She was horrified because in Japan, you have to apprentice for over a year to cut fish,” Brannen says. “Her assumption then was, ‘Well, I guess the Brits don’t really care about how their fish is cut.’ But if you have Asian customers, they’ll expect higher quality.”

That observation alone wouldn’t instantly improve profit margin on the fish itself—though proper training could reduce waste. But it provided Tesco a new perspective.

Amid complaints about poor service and processes and training programs—which would likely have gone unnoticed.

Another of Tesco’s promises was that customers would always be at the heart of business decisions. But to the Asian managers, that didn’t appear to be the case.

“In the U.K., the priority was competing on KPIs,” Brannen says. Managers who would have started their day on the shop floor were more worried about meeting KPIs than meeting customer needs.

In many Asian countries, Brannen explains, it’s not an option to allow the “customer at the heart” promise to slip. In Japan, competition for customers is fierce. Stores can’t make their primary focus competing on price—especially if it sacrifices customer service.

Tesco’s U.K. leadership began to rethink the balance between efficiency and the customer experience.

**LEARNING FROM DIFFERENCES**

Brannen’s project validated Tesco’s decision to better understand how marginals could bridge and integrate knowledge across the organization. First, the company would value managers with deep knowledge of local contexts. Second, it would support multidirectional flows of knowledge to and from the company’s headquarters and its subsidiaries. Third, it would build corporate advantage by “re-contexting” local practices using inside-outside knowledge from marginals. This last point, Brannen notes, is often the most valuable in creating a company’s competitive advantage.

Still, Tesco remains troubled amid declining sales and botched revenues reporting, and it now has a new CEO. Brannen attributes the company’s continuing problems to increasing price-based competition, “isomorphism of practices” (meaning that other grocery stores also began offering benefits such as club cards and discount pricing to become

**THE FIVE TYPOLOGIES OF BELONGING**

Brannen’s research identifies the following segments of multi- or bicultural belonging.

Marginal types: cultural insider-outsiders
- **Neither/nor:** biculturals who don’t feel they fully fit into either cultural context and are also perceived as not fully fitting in. For instance, a Japanese-American who is neither “American enough” for her U.S. community nor “Japanese enough” for her family back home.
- **Either/or:** This type’s behavior and self-perception becomes, for example, more Japanese in a Japanese context and more American in an American context.
- **One-home:** often a second-generation immigrant who doesn’t identify with his or her parents' native country and has assimilated into the new culture but remains sensitive to cultural differences.

“Bridger” types: cultural chameleons
- **Both/and:** biculturals who do not feel conflicted about their identities and who also do not receive cultural scrutiny from others.
- **Global cosmopolitan:** These individuals have crossed cultures so often—for instance, they lived in three countries by the time they were 18—they don’t see culture as an issue or barrier in the workplace. It’s a type seen in many Europeans.
more competitive) and what she calls a "crisis of leadership and vision" in the executive team.

Though the project did not produce breakthrough results, it did provide a stepping-stone for the company to take a closer look at its own operations. Marginals' insights comprise a piece of the larger puzzle as Tesco continues to reinvent itself in a dynamic, increasingly diverse business environment.

**MARGINALS AS LEADERS**

Despite their value, marginals are not always immediately pegged as leaders—especially by the largely monocultural C-suite. Monoculturalism among executives is a global problem, as minorities make up only 4 percent of Fortune 500 CEOs. The numbers are staggering: McKinsey reports that 97 percent of U.S. senior leadership teams do not reflect the demographic composition of the country’s labor force and population. Executive teams in the U.K. fare slightly better at 78 percent.

This is counterproductive, especially given that diversity also leads to tangible bottom-line results: Ethnically and racially diverse companies are 35 percent more likely to outperform their non-diverse competitors, McKinsey reports.

But under the umbrella of ethnic diversity or biculturalism, there is an important distinction between marginals and bridger types. Global cosmopolitans, one of the two primary bridger types, have crossed cultures so often they don’t see culture as an issue in the workplace. In Brannen’s research, global cosmopolitans ranked higher on cultural adaptability. For instance, they could move seamlessly from Silicon Valley to an office in Singapore, unperturbed by street signs in a foreign language. Global cosmopolitans, switching between contexts with ease, “feel that in organizations, the best way to lead will be uniform throughout the world—so cultural differences become leveled at a certain stage of efficiency,” Brannen says.

As a result, global cosmopolitans focus on what they understand as similarities across cultures instead of differences. Though that single-mindedness helps get the job done regardless of context, their approach might be akin to a steamroller instead of a more intentional chiseling away. The same can be said of monoculturals, who can be tone-deaf to subtle cultural differences.

That’s where marginals demonstrate their value. “Because they’ve never been able to fit in, marginals see differences in context,” Brannen says. They adopt a “stop, assess, then react” approach that depends on each situation. They notice and address cultural complexities, a valuable trait to bridging global teams.

**AN EARLY OBSERVATION**

Brannen points to a study she led earlier in her career while at University of Michigan that encapsulates those differences. Her ethnographers interviewed day care teachers in large U.S. cities where bicultural children were common. She found that when day care providers wanted to know what had gone on

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**Marginals’ lifelong experience inside a cultural or contextual tug-of-war means they’re keenly attuned to the contexts in which they operate.**
while they had stepped out of the classroom, they would always ask a marginal.

“The student would be a Vietnamese-American or someone who recently came to the country. That’s because the marginal sits, watches and tries to understand the context before they act,” Brannen says, adding that a child’s understanding of his or her cultural identity determines the skill sets he or she will bring to an organization later in life.

Johnny Monocultural has just been playing on his drum the whole time, not noticing what’s going on in the context.”

Added to marginals’ strength of perceptual acuity is cognitive complexity. In many fast-paced, quick-to-market global organizations, in which teams are working together overseas, navigating cultural complexities is highly valuable. Marginals tend to flourish here.

“In terms of global leadership issues, they’re very competent, especially with handling uncertainty,” Brannen says. “Because they have high levels of flexibility, marginals can answer the diversity and the innovation challenge in organizations.”

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Identifying and Empowering Marginals

Seeing your company through a different lens can reveal important insights about your operations and culture. Here’s how to find people with the power of perspective.

1. Create personnel profiles to get to know the people you’re hiring. Ask questions about their life experiences, not just about their professional background. This is where you can begin to unveil boundary-spanning capabilities and reveal complex cultural skill sets.

2. Assess your current team based on cultural identity instead of ethnicity. Focusing on ethnicity doesn’t tell you much—for example, there are many Korean-Americans who completely identify with America and know very little about Korea.

3. Distinguish between different cultural skill sets. Knowing a language is an example of a “cultural specific” skill set. But “cultural general” skill sets include things like cultural metacognition or perceptual acuity—knowing when something is different and matters. “I think the C-suite is still stuck on cultural specifics as opposed to these other more tacit, less-explicit skill sets,” Brannen says. Often, promotion protocols reward outdated skill sets. In the United States, for instance, traits like assertiveness and decisiveness are rewarded. “These are tools that have been successful in the past, but the world has changed,” Brannen says. “Luckily, the composition of the demographic entering the workplace is changing too.”

4. Give marginals an opportunity to apply their unique skill sets. On a global team, include at least one marginal. “It’s about having someone who will break group-think with a very different perspective,” Brannen says. Also consider letting marginals train monoculturals to understand and work in culturally complex environments.
It takes courage to even begin exploring reinvention. The process always starts with an element of risk: When you pose complex, difficult questions, you don’t know what answers you’ll discover. And when you reinvent yourself, it means committing to a completely different way of life.

I left my previous life as a top executive at Penn Mutual Insurance Company after 25 years. I didn’t just quit—I reorganized my department to eliminate my job. It wasn’t a matter of being unhappy; it was a matter of reclaiming my own authenticity and integrity. People thought I was crazy. But if you want to transform an organization—or yourself—you don’t start something new on top of what’s old. You have to examine the current paradigms and then deconstruct them. That’s when reinvention begins.

The year I left Penn Mutual, the government of Philadelphia, then on the brink of bankruptcy, was undergoing a reinvention of its own. As a parting gift and in recognition of my boldness in eliminating my own job, Penn Mutual paid my salary to join a task force of 32 area senior executives to re-engineer the way the city does business, from IT to procurement to talent management. While the city of Philadelphia operates in the public sector, there are benefits to running it as a private-sector business. We saved the city by saving wasted money: The city eliminated $160 million of annual expenses when it acted upon our recommendations to revamp several of its departments and processes. We brought a private-sector business paradigm to a city government and in doing so helped transform the city of Philadelphia.

In the public sector, where leaders are accountable to the whim of the voters, there are huge barriers to making sweeping changes. Residents, as well as government workers, hold preconceived notions about what should or shouldn’t happen and can be resistant to change. But in helping to re-engineer the city, I had to honestly assess its processes and not take what people told me at face value. It wasn’t that I didn’t trust them—I simply had to sift the facts out of each person’s perspective to reveal the true state of affairs and the best path forward.

At Insigniam, we do that by interviewing people. We listen and say very little. I’m always surprised by how candid people are and how much they really want to be part of major change, even when they say they’re not ready for it. That’s what happens in the final analysis: We unhook people from the paradigms they’ve been operating within. We take people’s thinking to the future and then build a bridge back to the present. In doing that, we stimulate creativity and thinking. And that’s where we find ideas with the power to transform reality.

Suzanne Grugan is a partner at Insigniam.
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