EMPOWERING LIVES THROUGH KNOWLEDGE AND IMAGINATION

Workshop @ Università di Palermo
Resilient Organizations
Responsible Leadership in Times of Uncertainty
Markus Venzin
Strategic and Entrepreneurial Management Department
Bocconi University
January 12, 2018
What do you think about this set of values?

Our Values

**Respect** We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don’t belong here.

**Integrity** We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won’t do it.

**Communication** We have an obligation to communicate. Here, we take the time to talk with one another... and to listen. We believe that information is meant to move and that information moves people.

**Excellence** We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.
A decade of scandals
«We Will Not Lie, Steal Or Cheat, Nor Tolerate Among Us Anyone Who Does»
«...talk is sometimes treated as a substitute for action, that by saying the right thing it somehow excuses people from actually doing it.»

Enron’s 60+ page Code of Ethics, dated July, 2000, starts with a foreword from its CEO Kenneth Lay:

"As officers and employees of the Enron Corp., its subsidiaries, and its affiliated companies, we are responsible for conducting the business affairs of the companies in accordance with all applicable laws and in a moral and honest manner.»
Definition

Responsible Leader

- Responsible leader is a change agent (Maritz et al., 2010)

- Responsible leadership calls for leaders to act in a business environment that has lost legitimacy and trust due to unethical misconduct (Waldman & Galvin, 2008)

- To be considered responsible, an individual will need to feel an inner obligation to do the right thing towards others (Waldman & Galvin, 2008)

- Responsible leadership should be highly strategic and calculable (Pless, 2012)
Pakistani Teenage Activist Malala Yousafzai Tells Her Story
Definition

Responsible Leader

• Responsible leader is a change agent (Maritz et al., 2010)

• Responsible leadership calls for leaders to act in a business environment that has lost legitimacy and trust due to unethical misconduct (Waldman & Galvin, 2008)

• To be considered responsible, an individual will need to feel an inner obligation to do the right thing towards others (Waldman & Galvin, 2008)

• Responsible leadership should be highly strategic and calculable (Pless, 2012)
The Body Shop as an example

Anita Roddick, was the founder of The Body Shop, a cosmetics company producing and retailing beauty products that shaped ethical consumerism.

ETHICS: The company was one of the first to prohibit the use of ingredients tested on animals and one of the first to promote fair trade with third world countries.

STRATEGY: By 2004, the Body Shop had 1980 stores, serving over 77 million customers throughout the world. It was voted the second most trusted brand in the United Kingdom, and 28th top brand in the world.


The Body Shop ad campaign (1998). The doll Ruby was intended to challenge stereotypes of beauty in the cosmetics industry.
Any role models out there?

**PRELIMINARY DEFINITIONS**

- Responsible leader is a *change agent* (Maritz et al., 2010)

- Responsible leadership calls for leaders to act in a business environment that has lost *legitimacy* and trust due to unethical misconduct (Waldman & Galvin, 2008)

- To be considered responsible, an individual will need to feel an inner obligation to do *the right thing* towards others (Waldman & Galvin, 2008)

- Responsible leadership should be highly *strategic* and calculable (Pless, 2012)
Anita Roddick, was the founder of The Body Shop, a cosmetics company producing and retailing beauty products that shaped ethical consumerism.

ETHICS: The company was one of the first to prohibit the use of ingredients tested on animals and one of the first to promote fair trade with third world countries.

STRATEGY: By 2004, the Body Shop had 1980 stores, serving over 77 million customers throughout the world. It was voted the second most trusted brand in the United Kingdom, and 28th top brand in the world.


The Body Shop ad campaign (1998). The doll Ruby was intended to challenge stereotypes of beauty in the cosmetics industry.
Responsible leaders create resilient firms
A strategy perspective:

“Responsible leaders create resilient firms”
Resilience is the capacity of a firm to absorb external shocks and to deliver stable, long-term results at a relatively low volatility.
The term “resilience” is used in many disciplines, including strategic management, organizational studies, material science, organizational ecology, and psychotherapy and psychology, as well as in studies of system robustness.

Could You Pass the Test?
Proctors administer the test in the order listed, and it must be completed within three hours. You get three minutes of rest between each of the calisthenics.

- Swim 25 meters underwater on one breath.
- Swim 1,000 meters sidestroke or freestyle in 26 minutes or under.
- Run 1.5 miles in under 10 minutes and 30 seconds.
- Pull off eight chin-ups in a minute or less.
- Do 50 sit-ups in 2 minutes or less.
- Pound out 50 push-ups in 2 minutes or less.
- Complete 50 flutter kicks in 2 minutes or less.
### What we can learn from business disasters

<table>
<thead>
<tr>
<th>Company</th>
<th>What happened</th>
<th>Why it happened</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Swissair</strong></td>
<td>Un unexpected event (9/11), put the airline industry under pressure. Swissair could not pay for fuel anymore…</td>
<td>After establishing a reputation for top-class airline services, Swissair followed an aggressive hunting strategy based on borrowing and acquiring.</td>
</tr>
<tr>
<td><strong>Hoover</strong></td>
<td>Hoover launched a marketing campaign: “Get a free flight if you spend £100 on Hoover products”. After also international flights were included, over 200,000 applicants caused costs of over £50m.</td>
<td>Customers soon realized that flights were worth more than the vacuum cleaners themselves. Management did not properly calculate the impact of campaign in terms of revenues and costs.</td>
</tr>
<tr>
<td><strong>Ford</strong></td>
<td>In 1958, the new Ford vehicle was launched and flopped. In November 1959, the car was removed from the market. Ford lost an estimated $250m - $2bn.</td>
<td>The car was too futuristic and experimental. Customers just did not like it.</td>
</tr>
</tbody>
</table>
How do we usually measure firm performance?

<table>
<thead>
<tr>
<th></th>
<th>BBVA</th>
<th>Bank of Nova Scotia</th>
<th>Banco Santander</th>
<th>Hudson City Bancorp</th>
<th>Bank of America</th>
<th>Lloyds</th>
<th>UBS</th>
<th>Citigroup</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue 2010</strong></td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>8&lt;sup&gt;th&lt;/sup&gt;</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
<td>6&lt;sup&gt;th&lt;/sup&gt;</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>(21,663 Mln)</td>
<td>(15,715 Mln)</td>
<td>(67,387 Mln)</td>
<td>(2,947 Mln)</td>
<td>(134,194 Mln)</td>
<td>(41,750 Mln)</td>
<td>(18,873 Mln)</td>
<td>(111,465 Mln)</td>
</tr>
<tr>
<td><strong>EBIT 2010</strong></td>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>6&lt;sup&gt;th&lt;/sup&gt;</td>
<td>8&lt;sup&gt;th&lt;/sup&gt;</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>(6,835 Mln)</td>
<td>(4,449 Mln)</td>
<td>(12,052 Mln)</td>
<td>(892 Mln)</td>
<td>(-1,323 Mln)</td>
<td>(281 Mln)</td>
<td>(8900.45 Mln)</td>
<td>(13,184 Mln)</td>
</tr>
<tr>
<td><strong>RoE 2010</strong></td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
<td>8&lt;sup&gt;th&lt;/sup&gt;</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>6&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>(15.32%)</td>
<td>(20.2%)</td>
<td>(11.42%)</td>
<td>(9.90%)</td>
<td>(-1.77%)</td>
<td>(-0.72%)</td>
<td>(16.7%)</td>
<td>(6.67%)</td>
</tr>
<tr>
<td><em><em>EVA</em> 2010</em>*</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>8&lt;sup&gt;th&lt;/sup&gt;</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
<td>6&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>(-2,050 Mln)</td>
<td>(1,137 Mln)</td>
<td>(-5,336 Mln)</td>
<td>(151,28 Mln)</td>
<td>(-27,345 Mln)</td>
<td>(-10,776 Mln)</td>
<td>(-3,901 Mln)</td>
<td>(-8,900 Mln)</td>
</tr>
<tr>
<td>**TSR ** (1year) 2009-2010</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
<td>6&lt;sup&gt;th&lt;/sup&gt;</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
<td>8&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>(59%)</td>
<td>(81%)</td>
<td>(86%)</td>
<td>(25%)</td>
<td>(7.2%)</td>
<td>(-9%)</td>
<td>(11.4%)</td>
<td>(-50%)</td>
</tr>
</tbody>
</table>

…but there are at least two fundamental shortcomings related to those measures.
Automotive

Adjusted Standard Deviation of RoE

VOLARE

Adjusted Standard Deviation of RoE

LTRoE (10 Years)

Porsche
Bmw
VW
Daimler
Fiat
Audi
Daihatzu
Hyundai
Mazda
Ford
Financial Services

Adjusted Standard Deviation of RoE

LTRoE (10 Years)

VOLARE

Deutsche Bank
IntesaSanpaolo
UBS
Unicredit
Santander
Mediolanum
Citibank
BBVA
Commerzbank
Credit Suisse
Bank of Nova Scotia
Pharma

Adjusted Standard Deviation of RoE

LTRoE (10 Years)

VOLARE

Bristol Myers Squibb
Eli Lilly
Bayer
Roche
Sanofi-Aventis
Pfizer
Celgene
Astrazeneca
Novartis
Novo Nordisk
GSK
Abbott
Baxter
Telco
Can VOLARE predict share-price performance?

**NO**
Top and flop VOLARE firms drop in a similar way.

**YES**
Top VOLARE firms have a significantly higher ability to bounce back after a shock.
Can VOLARE predict share-price performance?

Share price loss after shock

Share price recovery one year after minimum

Aggregated data on top firms in banking, apparel, publishing and automotive
(total number of firms analyzed: 304)
In search for resilience drivers: comparing Volare Top to Flop

<table>
<thead>
<tr>
<th>Category</th>
<th>Top</th>
<th>Flop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharma</td>
<td>Astra Zeneca</td>
<td>Pfizer</td>
</tr>
<tr>
<td></td>
<td>Novartis</td>
<td>Merck</td>
</tr>
<tr>
<td></td>
<td>Novo Nordisk</td>
<td>Sanofi-Aventis</td>
</tr>
<tr>
<td>Telecom</td>
<td>Telecom Italia</td>
<td>Vodafone</td>
</tr>
<tr>
<td></td>
<td>China Mobile</td>
<td>Deutsche Telekom</td>
</tr>
<tr>
<td></td>
<td>Bharti Airtel Ltd</td>
<td>France Telecom</td>
</tr>
<tr>
<td>Beer</td>
<td>Guinness</td>
<td>San Miguel</td>
</tr>
<tr>
<td></td>
<td>Carlsberg</td>
<td>SABMiller</td>
</tr>
<tr>
<td></td>
<td>Asahi</td>
<td>Allgaeuer Brauhaus</td>
</tr>
<tr>
<td>Energy</td>
<td>Gazprom</td>
<td>Edison</td>
</tr>
<tr>
<td></td>
<td>Repsol</td>
<td>Conoco Phillips</td>
</tr>
<tr>
<td></td>
<td>Exxon</td>
<td>Cairm Energy</td>
</tr>
<tr>
<td>White Goods</td>
<td>Whirpool</td>
<td>Singer</td>
</tr>
<tr>
<td></td>
<td>Sanyo</td>
<td>Jarden Corp</td>
</tr>
<tr>
<td></td>
<td>Indesit</td>
<td>Snaige AB</td>
</tr>
<tr>
<td>Banking</td>
<td>HDFC</td>
<td>Commerzbank</td>
</tr>
<tr>
<td></td>
<td>Banco Santander</td>
<td>Citigroup</td>
</tr>
<tr>
<td></td>
<td>Bank of Nova Scotia</td>
<td>UBS</td>
</tr>
</tbody>
</table>
Our model

- Simplicity of business model
- Focused international expansion
- Serve clients before shareholders
- Increased levels of authenticity
- Quality and speed of decision-making
- Resist the temptation of short-term gains
- Create effective top management teams

Resilience

Sustained Superior Performance (VOLARE)
Resilience driver 1: simplicity of business models

“…the business is primarily focused on protein engineering, expression and formulation. Focus is our strength.” (Lars Rebien Sørensen, CEO Novo Nordisk)

“…we simplified our business model around our core competences which allows us replicate our business model abroad.” (Fulvio Conti, CEO Enel)

Resilient firms have relatively simple business models and are committed to a strong core in terms of products and services that can be protected because they are clearly linked to their specific resources and capabilities.
The Messie Syndrome
The Messie Syndrome – causes and solutions

Compulsive hoarding is a pattern of behavior that is characterized by excessive acquisition and an inability or unwillingness to discard large quantities of objects that cover the living areas of the home and cause significant distress or impairment.
Clean Desk Policy

"If a cluttered desk is a sign of a cluttered mind, Of what, then, is an empty desk a sign?"

~Albert Einstein
Clean Desk Policy

How clean do you want your desk to be?
1. Saves Time and Money: search costs and use of paper drops
2. Increases mobility
3. Good Impressions
4. Compliance in certain industries in relation to personal information
5. Discourages Prying Eyes
6. Reduces Stress
What percentage of its revenues does Apple make with its iPhones?
Apple

iPhone sales account for about 70% of total sales
Product scope
Product scope
Product scope
Product scope
The domestic market is the cash-cow. Brazil and Argentina are the promising areas.

Focus on India – there is a lot of growth to catch. International expansion is risky and expensive.

Strong, profitable presence in home-market. Substantial investments in a few geographically close emerging markets and minimal presence in distant developed markets.

**Geographical diversification** – against common sense – often increases the fragility of an organization since local risks are harder to control and minimal critical scales in foreign markets is more difficult to reach as the number of markets increase. Resilient firms have a strong home market position, preferably three to five “second home markets” in which they are almost as strong as in their home markets and low commitment positions in a number of promising markets.
Resilience driver: Customer centricity

"producing the best possible products for users is our paramount thing" (Larry Page, Founder and CEO Google).

The free Hyundai job-loss insurance allows clients to protect themselves against financial risks of investing in a new car.

Resilient firms show higher levels of **customer centricity**. They genuinely care about customers and their needs and are willing to sacrifice short-term profitability if this is necessary to tie the customers to them. Employees identify with the purpose of the firm and are proud to add value to their customers.
Resilience driver 4: Increased levels of authenticity

An organization would be perceived as authentic to the extent that it embodies the chosen values of its founders, owners or members (Carroll, 2009).

The Nestlé values are at the basis of our company’s culture, developed over 140 years, which reflects the ideas of fairness, honesty and long-term thinking. These values come from our Swiss roots (Paul Bulcke, CEO Nestlé).

Resilient firms show higher levels of **authenticity**. They engage in businesses that naturally fit with their tradition and values.
How did people dress in the 12th Century in Scotland?
COMPLETE MOTION PICTURE SCORE

BRAVEHEART

MUSIC COMPOSED AND CONDUCTED BY
JAMES HORNER
The history of the Scottish kilt illustrates the importance of symbols that represent us in an authentic way. Even though the kilt does not have a long tradition, we like to believe that an authentic Scotsman wears (or at least owns) a kilt.

The kilt was invented in the 17th Century.
The importance of authenticity
The importance of authenticity
Not So “Real” Ingredients at Starbucks

PESTICIDES
Coffee

AZODICARBONAMIDE
Croissant

CARAMEL COLORING
Frappuccino

SODIUM BENZOATE
Iced Lemon Pound Cake

CARRAGEENAN
Soy Milk Latte

PROPYLENE GLYCOL
Apple Fritter

CELLULOSE GUM
Veggie & Monterrey Jack Breakfast Sandwich

HIGH FRUCTOSE CORN SYRUP
Chocolate Banana Smoothie

NATURAL FLAVORS
Refresher

GMOs
Blueberry Scone

Source: Food Babe Investigates on 100 days of Real Food
More Info: 100daysofRealFood.com & FoodBabe.com
Type authenticity

The Ivan Pavlov Study (1914)
Type authenticity

The more one is identifiable with a class or a specific type (e.g., product, market, customer segment), the more authentic one is. In this case, a firm is authentic if it is focused on a specific product, market segment or area.

You are known for a specific product/service

The product/service is closely tied to your core competences
Moral authenticity

The more one is identifiable with some predetermined reference values, the more authentic one is. Moral authenticity is the alignment of head, mouth, heart, and feet – thinking, saying, feeling, and doing the same thing – consistently. This builds trust, and followers love leaders they can trust”.

Culture is the set of basic assumptions, values, ideologies, opinions, knowledge and ways of thinking that are shared by the members of an organisation. The observable elements of culture are:

1. The ‘communication system’, which can also be symbolic (e.g., how to talk, greet, establish relationships with others and dress).
2. Rites, ceremonies and planned collective activities characterized by high emotional involvement that take place in the presence of an audience (e.g., the introduction of new employees, salesperson of the month awards, introductions of new directors, management-employee meetings, Christmas dinners, corporate travel).
3. The physical elements of the organisation, which can be particularly effective because they focus attention on a specific object (e.g., the shape of the building, the layout of the premises, uniforms).
Resilience driver 5:
The ability to make fast strategic decisions based on the social controls of key actors

Duomo di Monreale,
Sicily
Resilience driver 6: Resist the temptation of short-term gains

“My biggest challenge is to make sure our decision makers have a long-term perspective” (Vittorio Colao, CEO Vodafone)

“My second happiest day was when we announced we were ending quarterly earnings guidance. Ending the firm’s longstanding practice of holding up earnings targets to the Street, and then trying to meet them, helped us rid ourselves of so many needless pressures and burdens—pressures that can get in the way of managing for long-run growth and profitability.” (Keith Sherin, Vice Chairman and Chief Financial Officer, General Electric)

Decision-makers in resilient firms have a long-term perspective that goes beyond their own tenure with the firm.
Resilience driver 6: Resist the temptation of short-term gains

Motivation to improve Performance

Promotes under-performance

Budget

Bonus

Prohibits Superior Performance

Performance Metrics

2015
Resilience driver 6: Resist the temptation of short-term gains

Resilient firms have more sophisticated performance and bonus systems, which are not only based on financial performance indicators but also include qualitative components and feature “bonus banks” with parts of the variable salary deferred for three to five years.
Resilience driver 7: Create effective top management teams

....one of the reasons we move fast is fewer people (Zhang Rui Min, CEO Haier)

....I get information directly from people at all levels. I keep in touch with people on the ground — people write to me directly. In many cases, I get information I otherwise wouldn’t have gotten. There is a form of social control (Martin Winterkorn, CEO Porsche Automobil Holding)

Resilient firms are led by functional specialist CEOs and top management teams that are tied to each other by shared values and beliefs.
Our model

- Simplicity of business model
- Focused international expansion
- Serve clients before shareholders
- Increased levels of authenticity
- Quality and speed of decision-making
- Resist the temptation of short-term gains
- Create effective top management teams

Resilience + + Sustained Superior Performance (VOLARE)
So, how can firms start to make firms more resilient?

You need to clean the stairs from the top... But where is the top? Who starts?