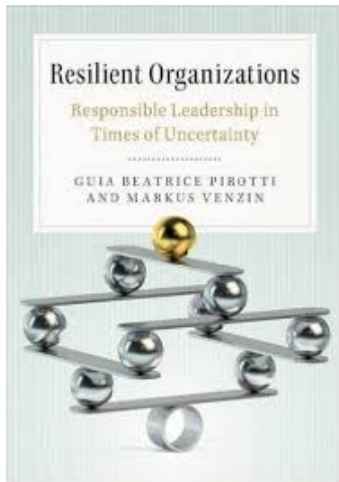


EMPOWERING LIVES THROUGH KNOWLEDGE AND IMAGINATION

MILANO | ITALY



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

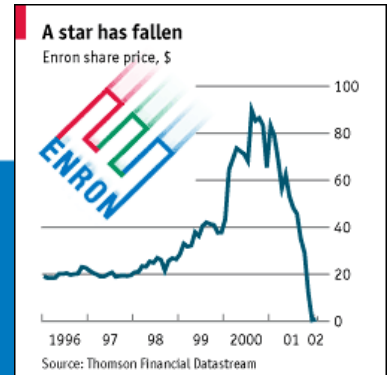
We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.

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





U.S. AIR FORCE



***«We Will Not Lie, Steal Or
Cheat, Nor Tolerate Among
Us Anyone Who Does»***

The Knowing-Doing Gap

How
Smart
Companies
Turn Knowledge
into Action

**Jeffrey Pfeffer and
Robert I. Sutton**

HARVARD BUSINESS SCHOOL PRESS

«....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)

Role models?





Pakistani Teenage Activist Malala Yousafzai Tells Her Story

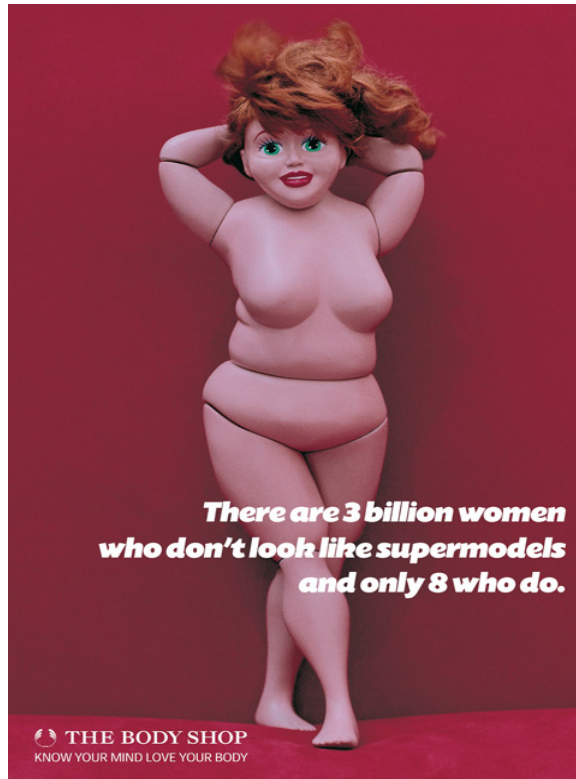
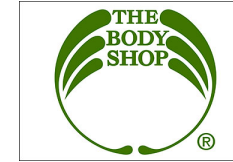
Definition Responsible Leader

- 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)

Role models?



The Body Shop as an example



The Body Shop ad campaign (1998). The doll Ruby was intended to challenge stereotypes of beauty in the cosmetics industry.

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.

Anita Roddick died in 2007. On 17 March 2006, L'Oreal purchased Body Shop for £652 million. The brand is still successful.

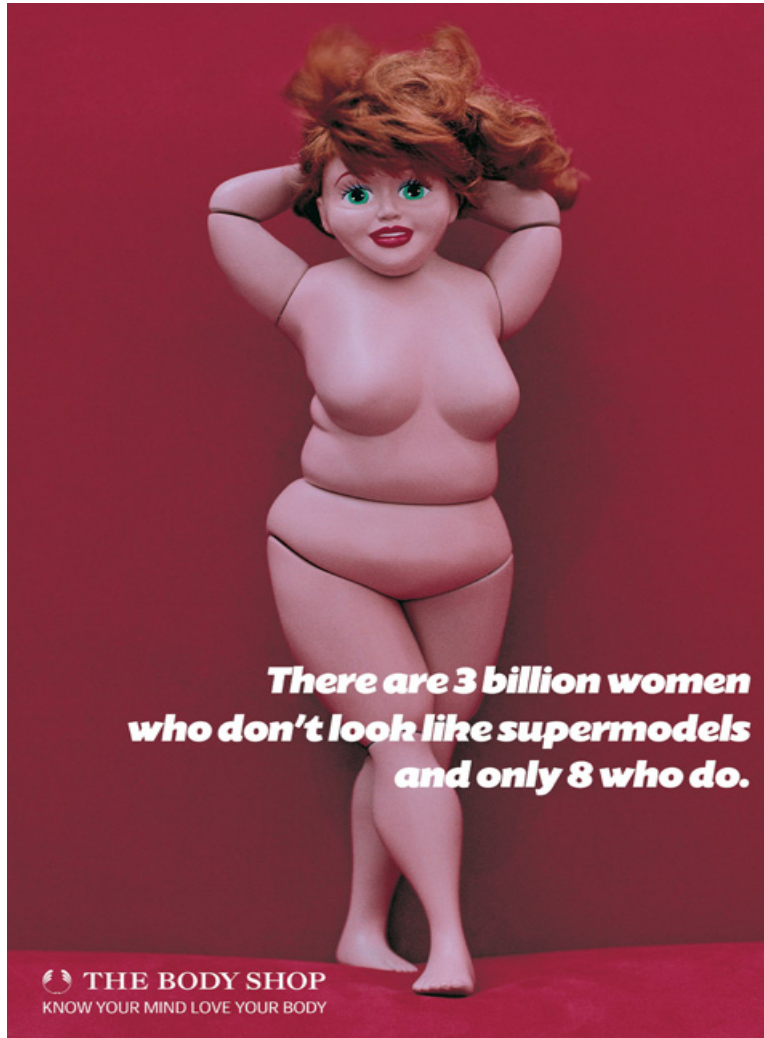
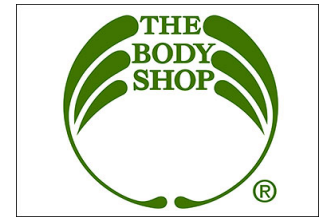
Any role models out there?

PRELIMINARY DEFINITIONS_c

- 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.

Anita Roddick died in 2007. On 17 March 2006, L'Oreal purchased Body Shop for £652 million. The brand is still successful.

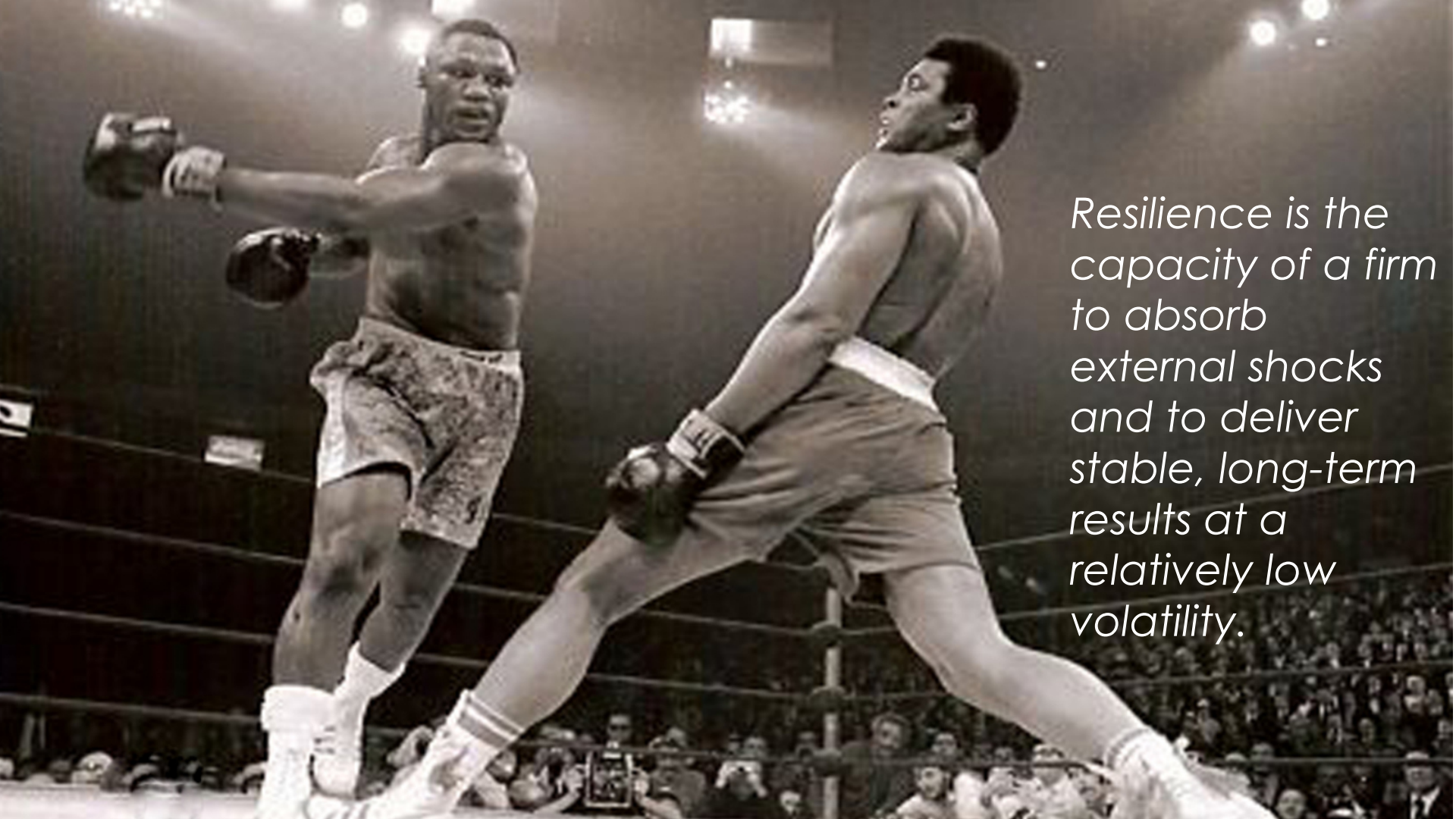
The Body Shop ad campaign (1998). The doll Ruby was intended to challenge stereotypes of beauty in the cosmetics industry.

Responsible leaders
create resilient firms

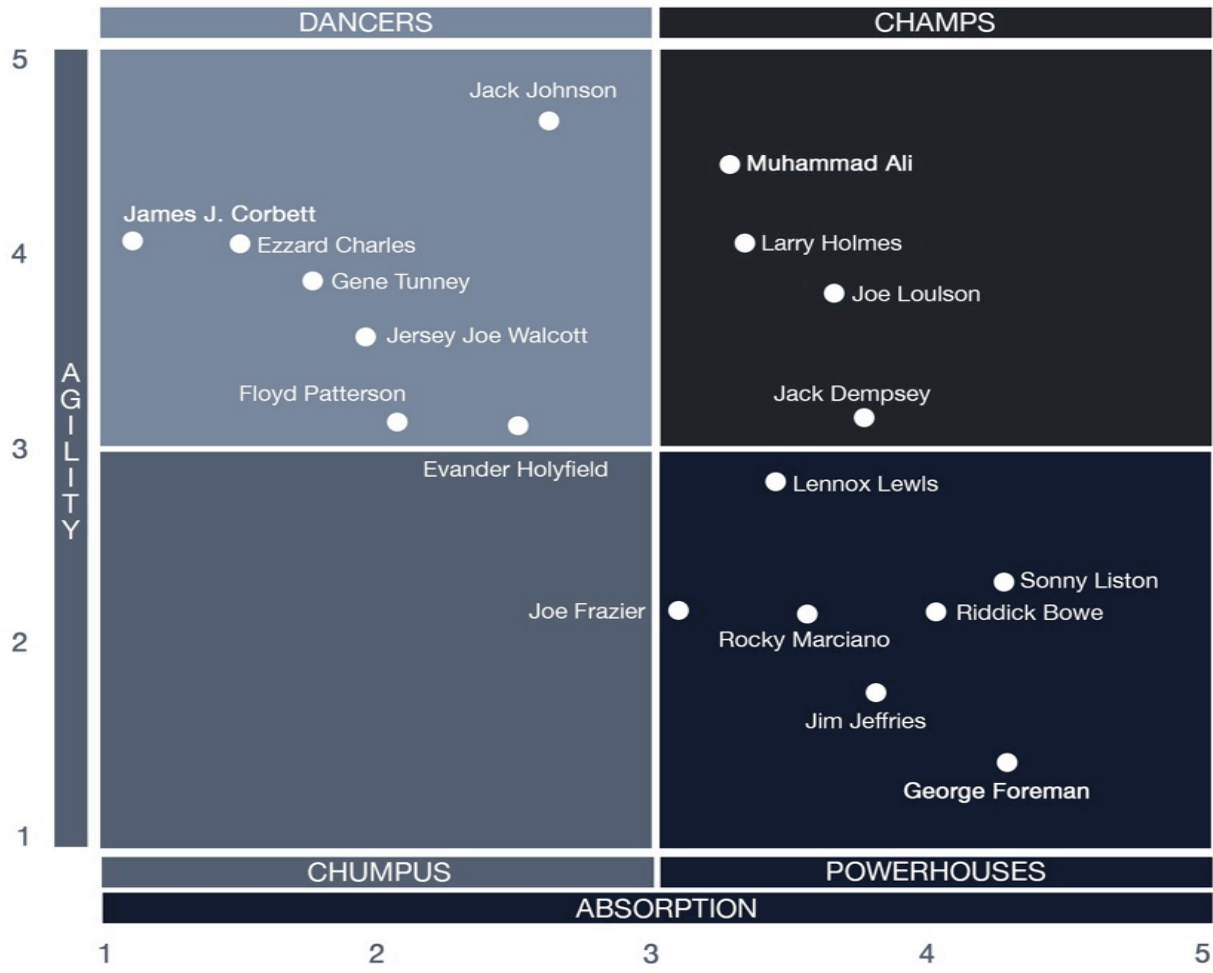


**A strategy
perspective:**

**“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.

Carmeli, A., & Markman, G. D. 2011. Capture, governance, and resilience: strategy implications from the history of Rome. *Strategic Management Journal*, 32(3): 322-341






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

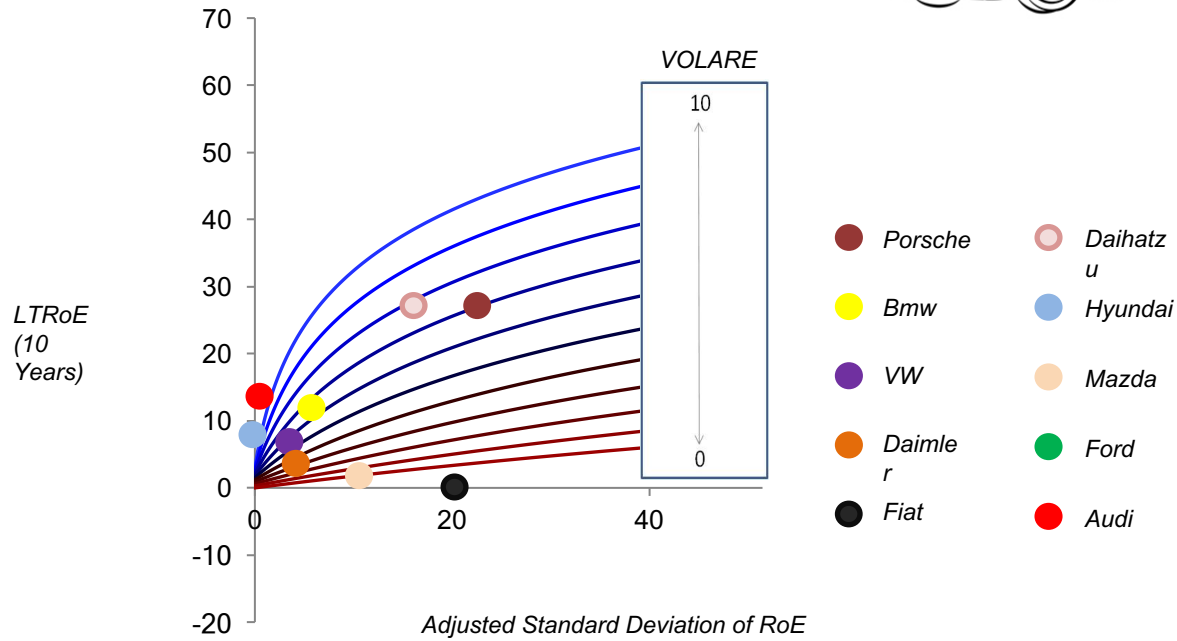
Company	What happened	Why it happened
	<p><i>Un unexpected event (9/11), put the airline industry under pressure. Swissair could not pay for fuel anymore...</i></p>	<p><i>After establishing a reputation for top-class airline services, Swissair followed an aggressive hunting strategy based on borrowing and acquiring.</i></p>
	<p><i>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.</i></p>	<p><i>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.</i></p>
	<p><i>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.</i></p>	<p><i>The car was too futuristic and experimental. Customers just did not like it.</i></p>

How do we usually measure firm performance?

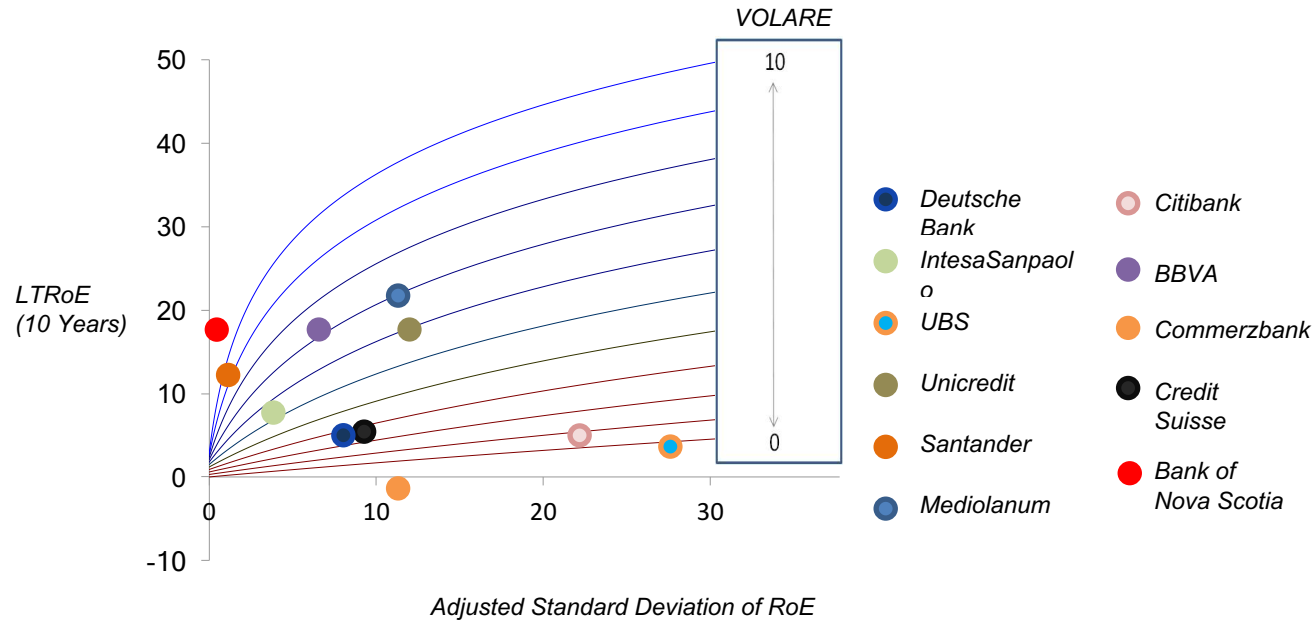
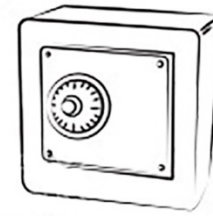
	BBVA	Bank of Nova Scotia	Banco Santander	Hudson City Bancorp	Bank of America	Lloyds	UBS	Citigroup
Revenue 2010	5 th (21,663 Mln)	7 th (15,715 Mln)	3 rd (67,387 Mln)	8 th (2,947 Mln)	1 st (134,194 Mln)	4 th (41,750 Mln)	6 th (18,873 Mln)	2 nd (111,465 Mln)
EBIT 2010	4 th (6,835 Mln)	5 th (4,449 Mln)	2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

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

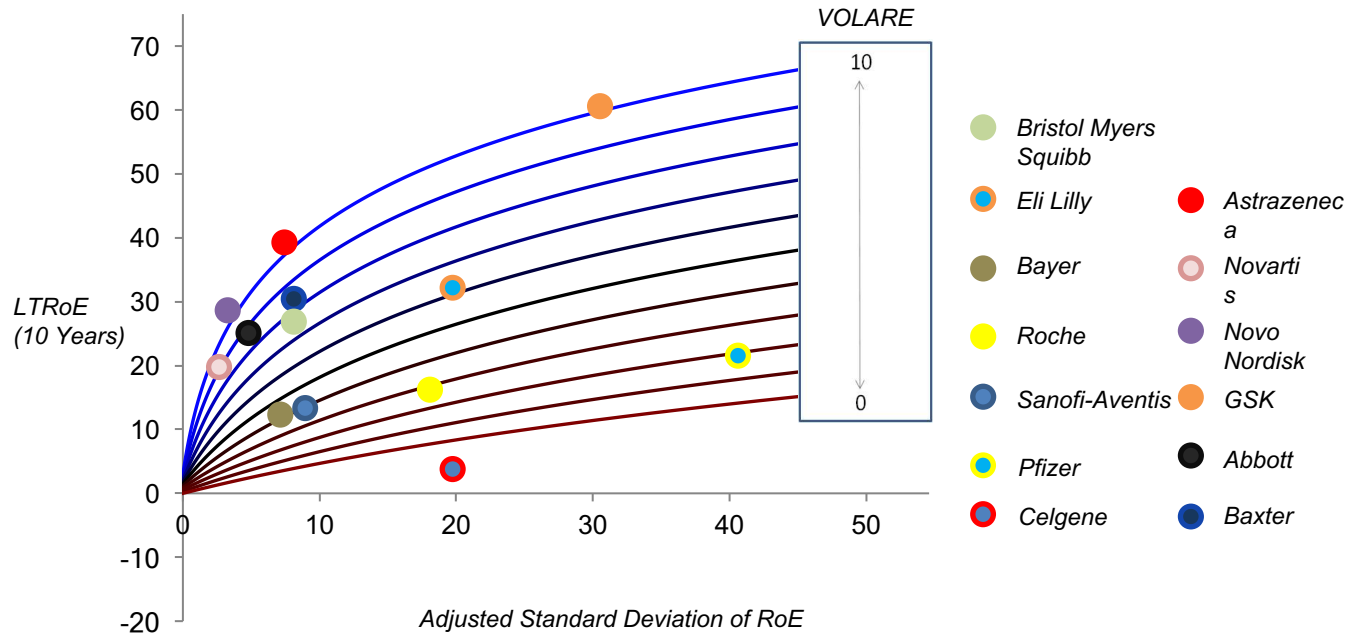
Automotive



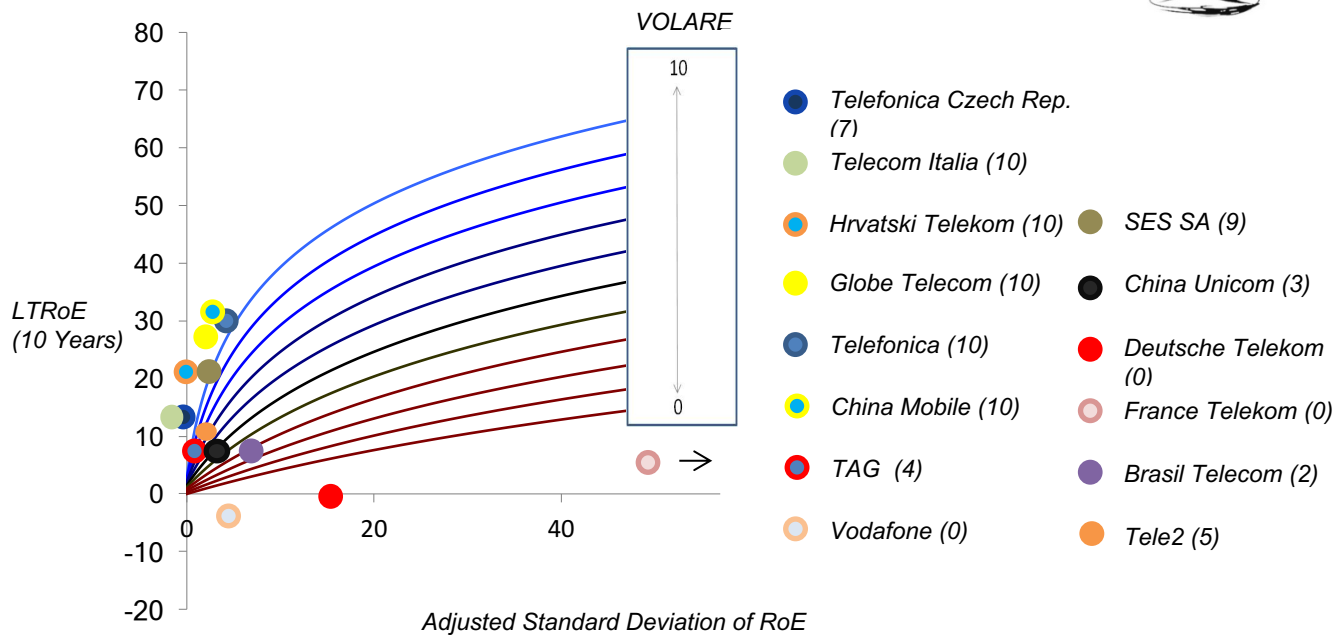
Financial Services



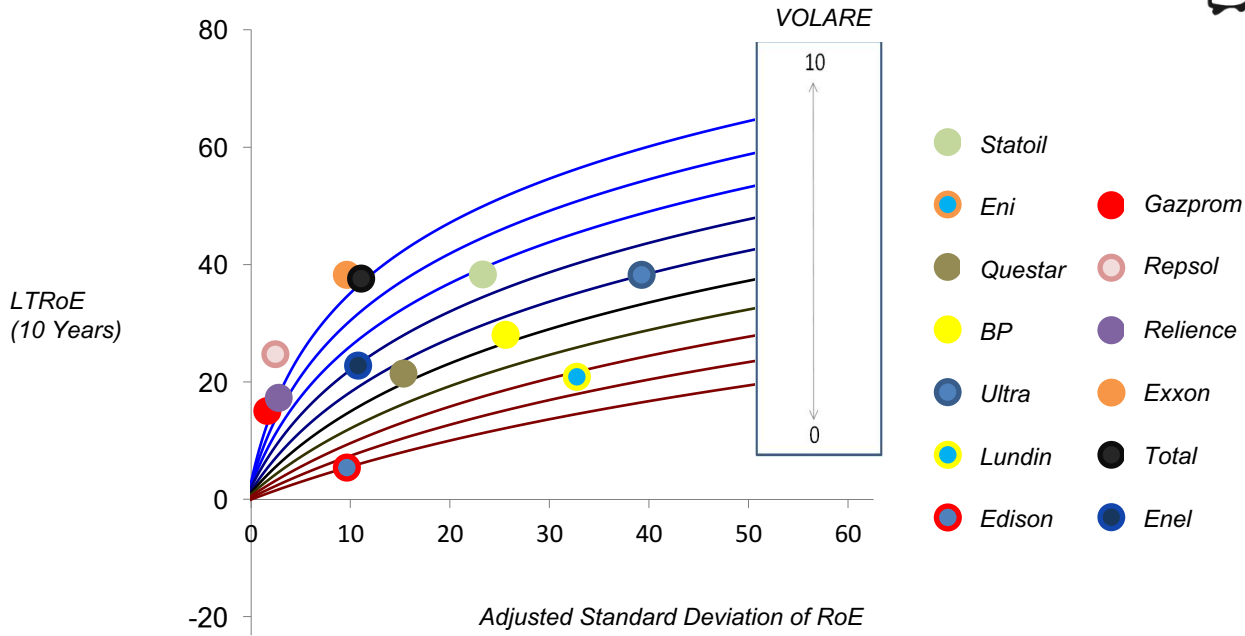
Pharma



Telco



Energy



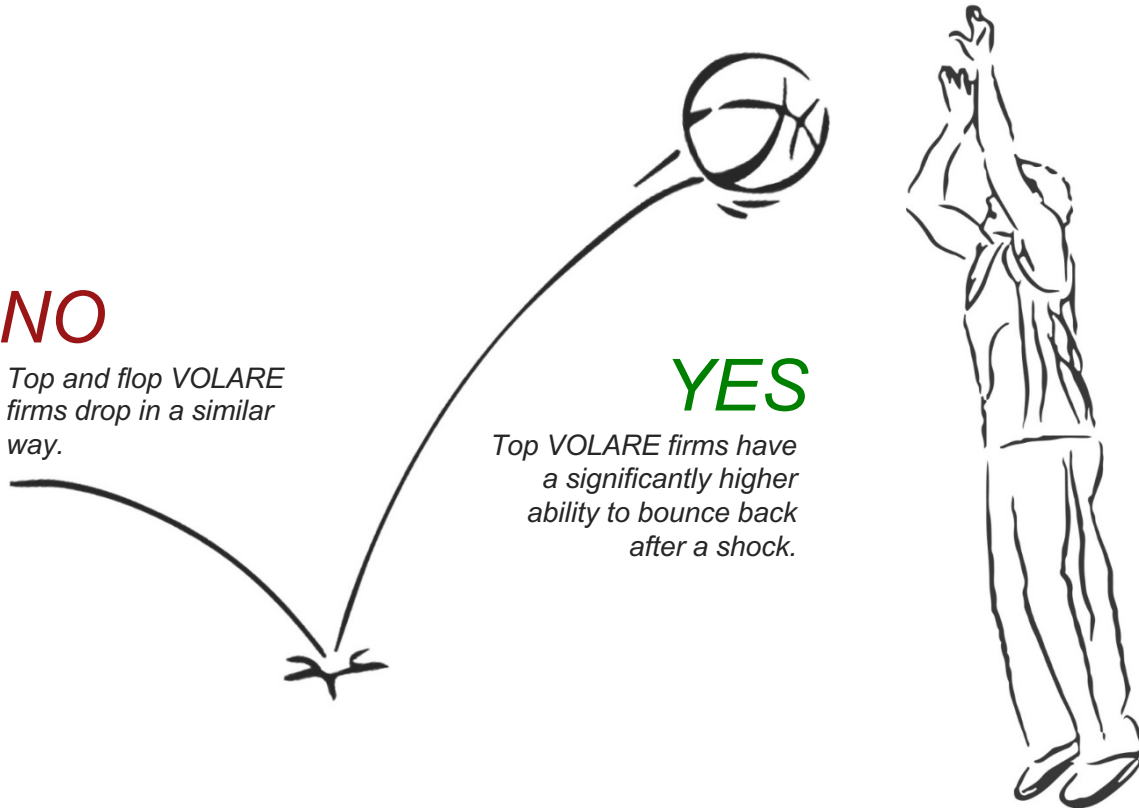
Can VOLARE predict share-price performance?

NO

Top and flop VOLARE firms drop in a similar way.

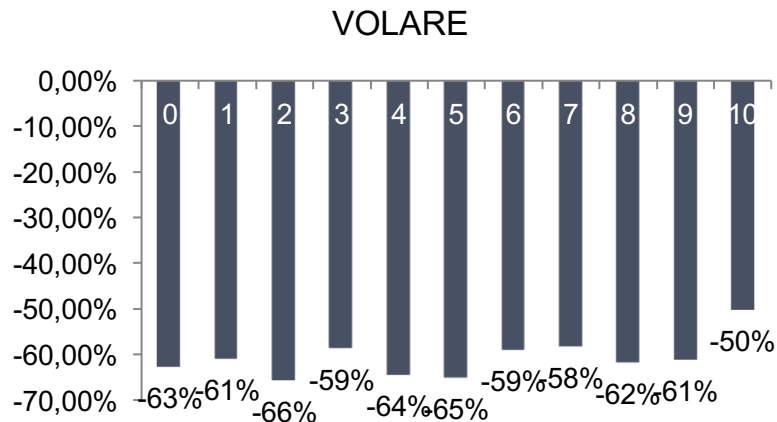
YES

Top VOLARE firms have a significantly higher ability to bounce back after a shock.

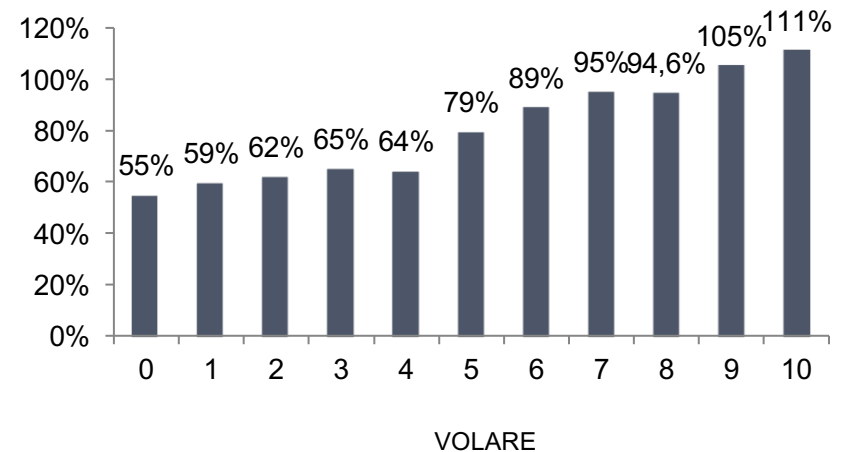


Can VOLARE predict share-price performance?

Share price loss after shock





Share price recovery one year after minimum

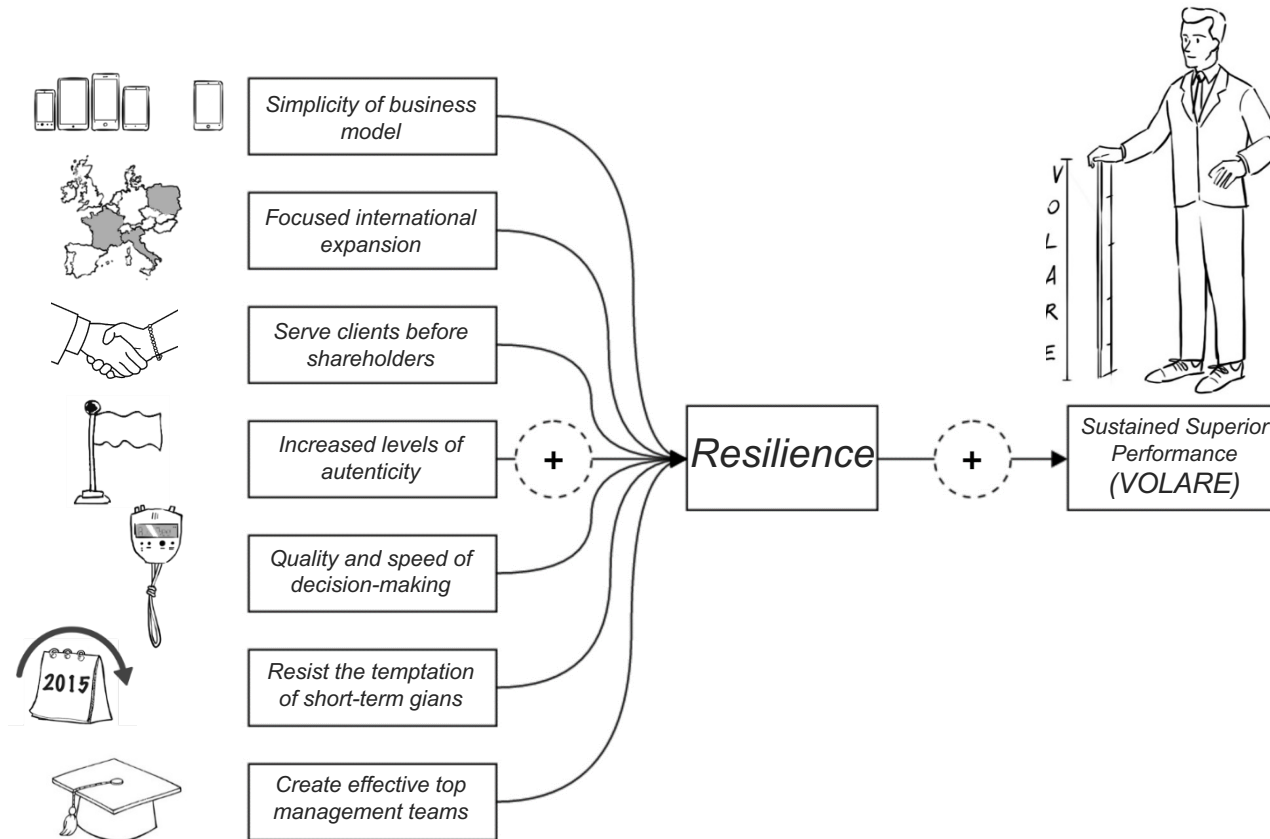


Aggregated data on top firms in banking, apparel, publishing and automotive
(total number of firms analyzed: 304)

In search for resilience drivers: comparing Volare Top to Flop

	Top		Flop
Pharma	Astra Zeneca Novartis Novo Nordisk		Pfizer Merck Sanofi-Aventis
Telecom	Telecom Italia China Mobile Bharti Airtel Ltd		Vodafone Deutsche Telekom France Telecom
Beer	Guinness Carlsberg Asahi		San Miguel SABMiller Allgäuer Brauhaus
Energy	Gazprom Repsol Exxon		Edison Conoco Phillips Cairn Energy
White Goods	Whirlpool Sanyo Indesit		Singer Jarden Corp Snaige AB
Banking	HDFC Banco Santander Bank of Nova Scotia		Commerzbank Citigroup UBS
			

Our model



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

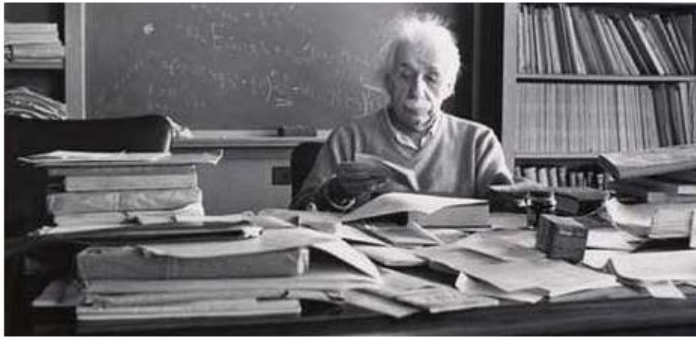
The Messie Syndrome – causes and solutions



WIKIPEDIA
The Free Encyclopedia

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

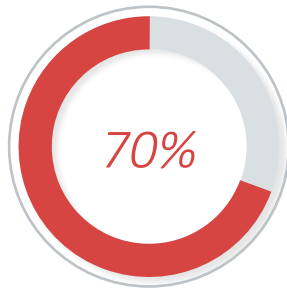


How clean do you want your desk to be?

- 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?

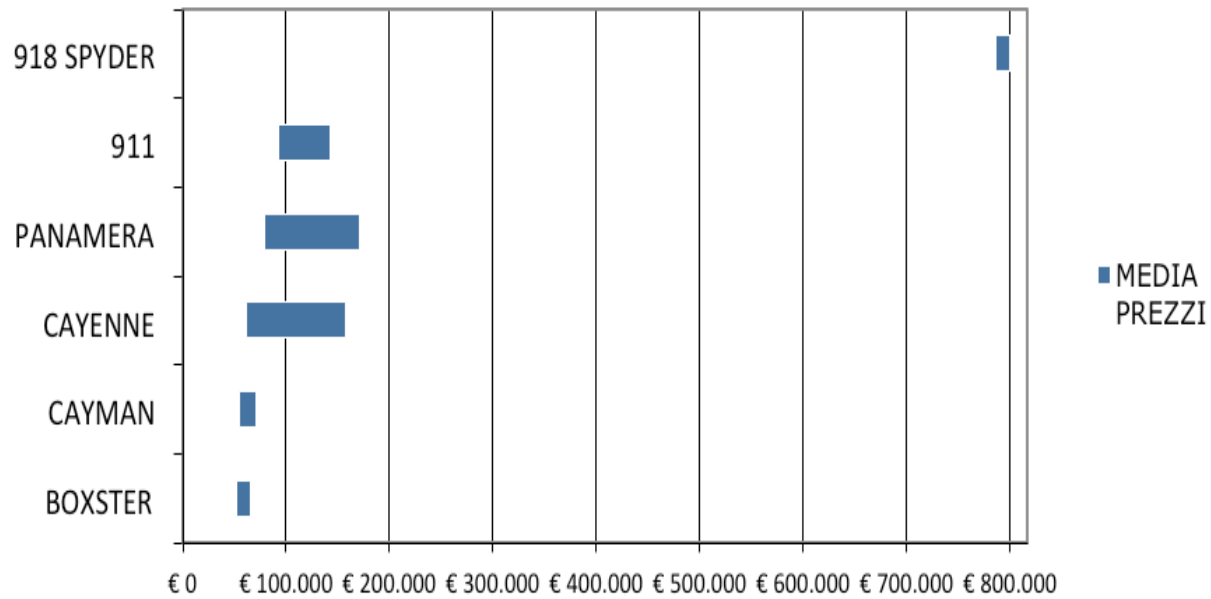




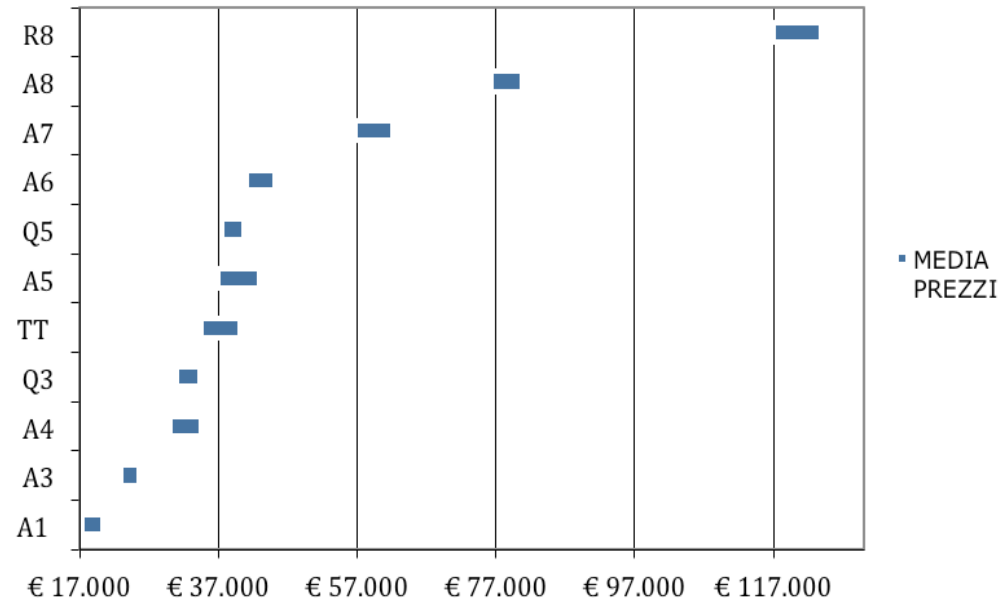
Apple

*iPhone sales account for
about 70% of total sales*

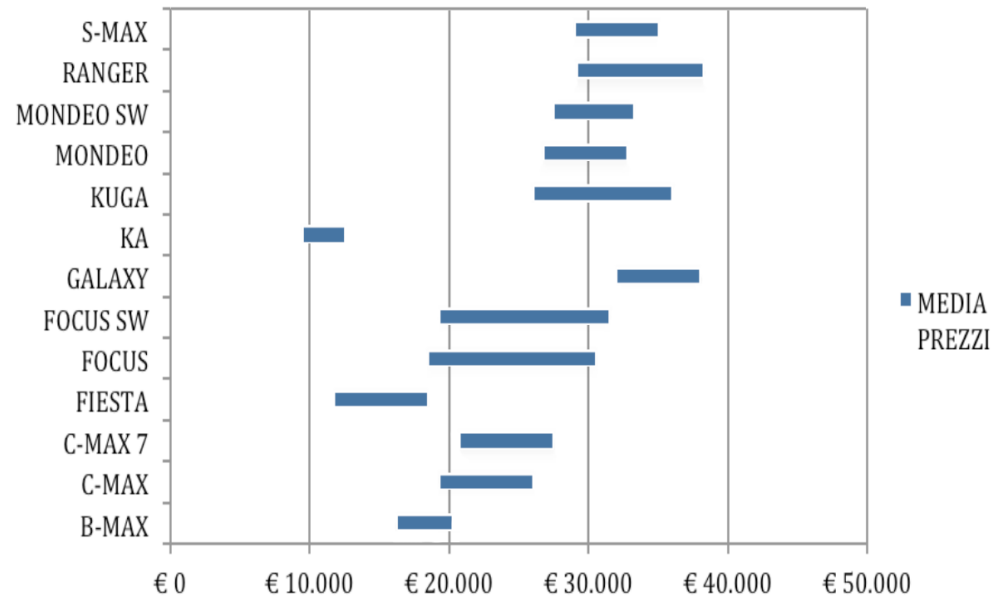
Product scope



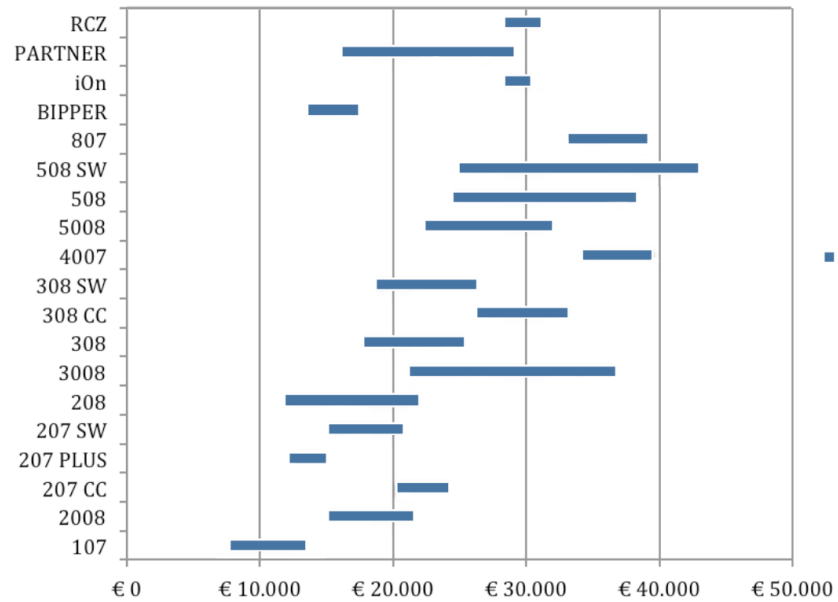
Product scope



Product scope



Product scope



Resilience driver 2: Focused international expansion



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



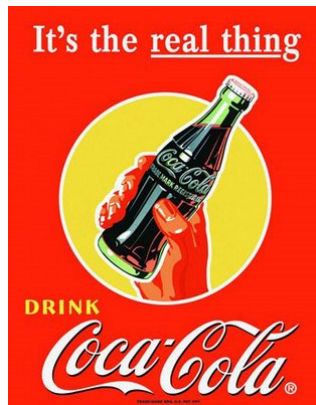


The history of the Scottish kilt illustrates the importance of symbols that represent us in an authentic way. Even though the kilt does not have a long tradition, we like to believe that an authentic Scotsman wears (or at least owns) a kilt.

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

PROPLYENE
GLYCOL



Apple Fritter

CELLULOSE
GUM



Veggie & Monterey
Jack Breakfast
Sandwich

HIGH FRUCTOSE
CORN SYRUP



Chocolate Banana
Smoothie

NATURAL
FLAVORS



Refresher

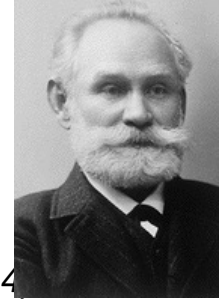
GMOs



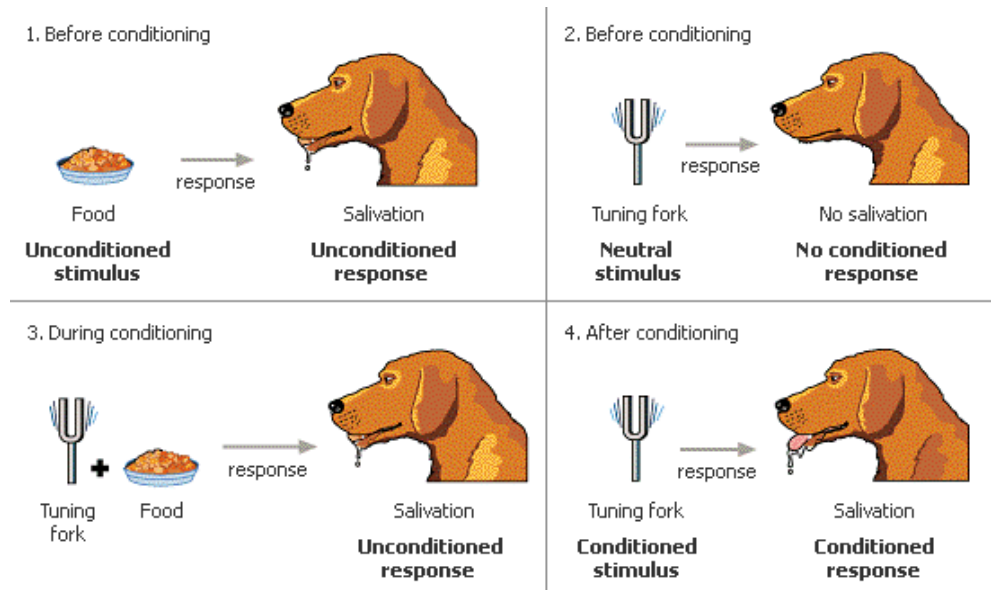
Blueberry Scone

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).*

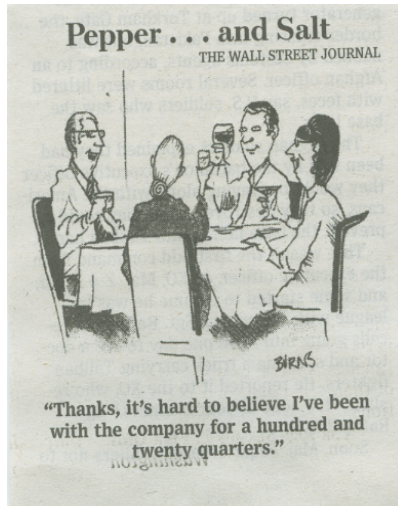
*Resilience driver 5:
The ability to make fast strategic decisions
based on the social controls of key actors*



***Duomo di Monreale,
Sicily***



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



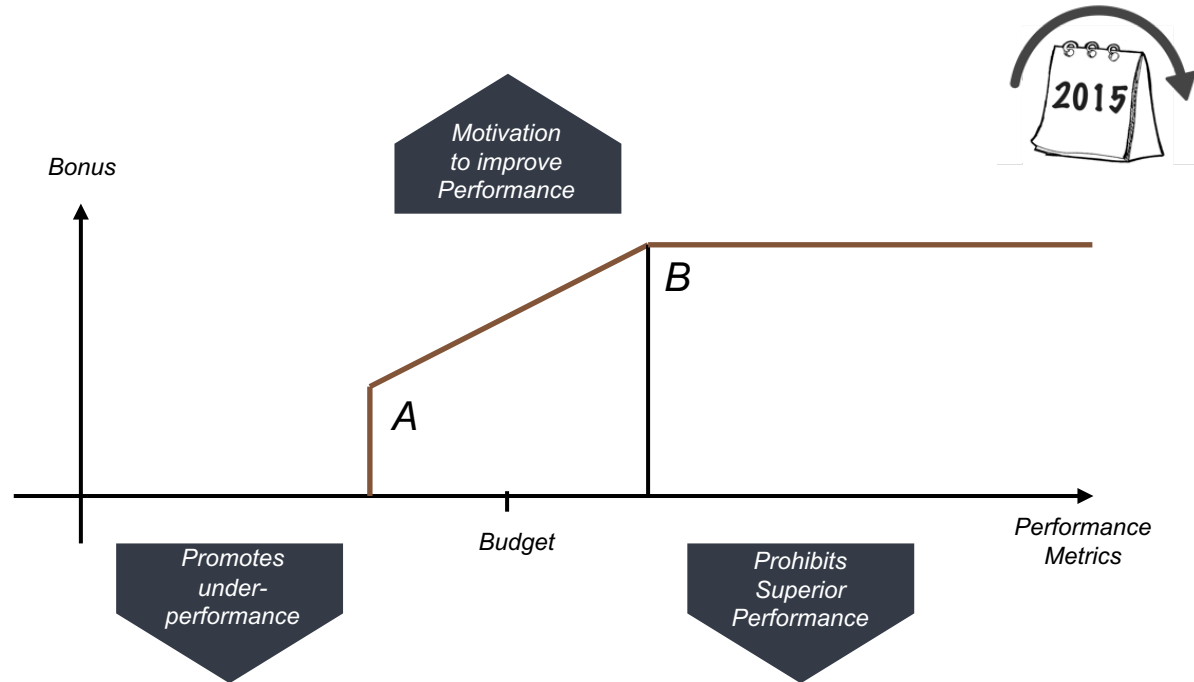
WSJ Europe, November 9, 2011

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

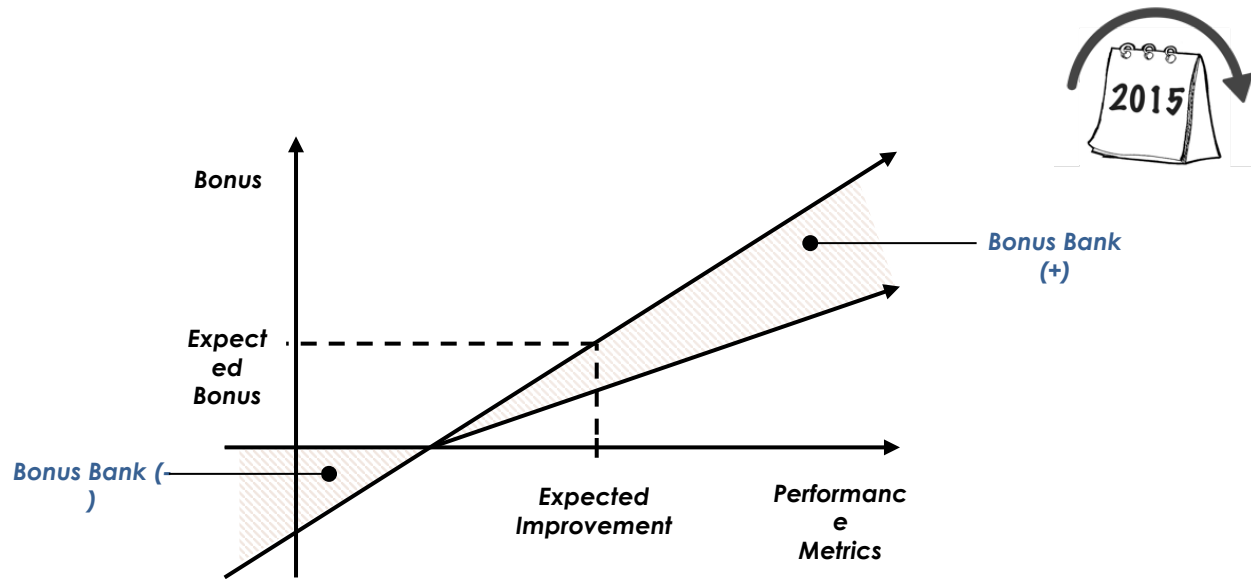
"My second happiest day was when we announced we were ending quarterly earnings guidance. Ending the firm's longstanding practice of holding up earnings targets to the Street, and then trying to meet them, helped us rid ourselves of so many needless pressures and burdens—pressures that can get in the 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



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



Haier

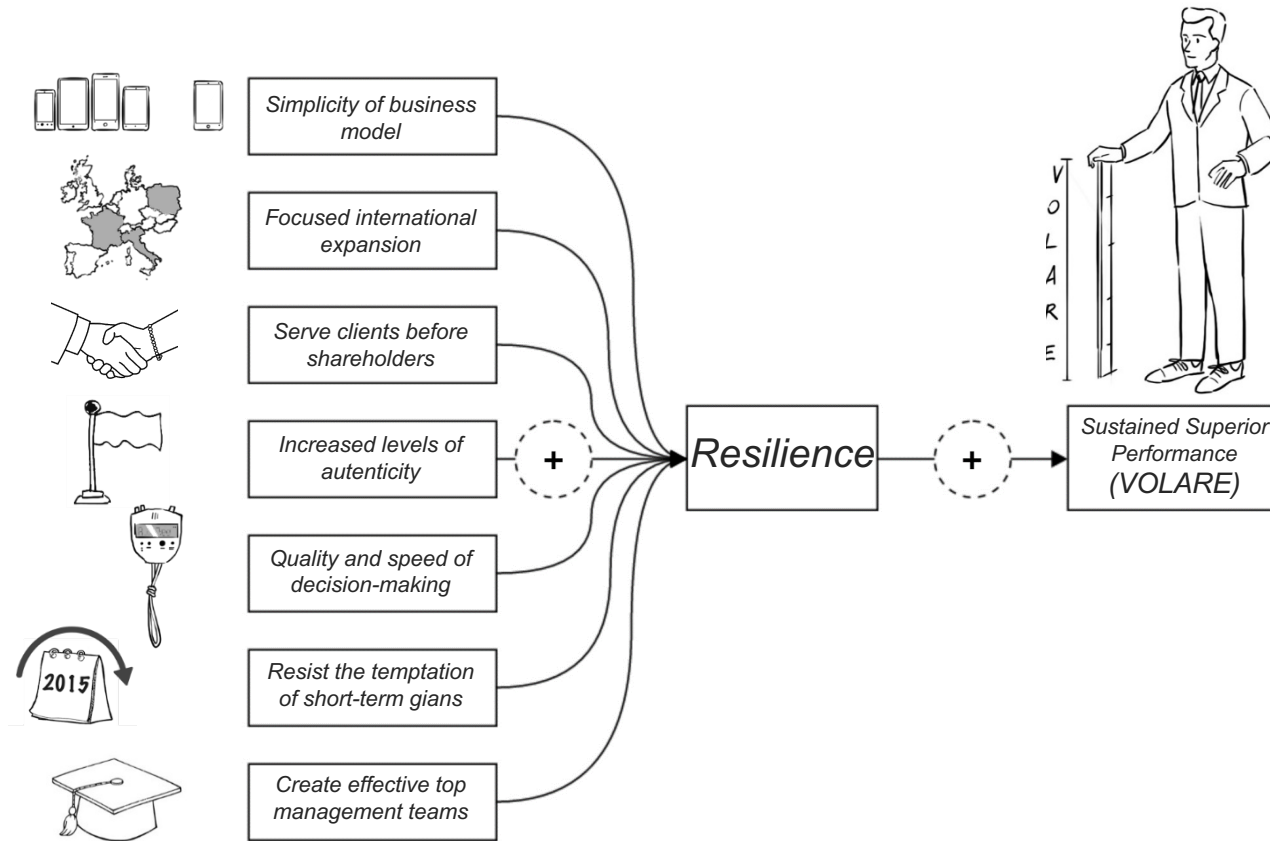
....one of the reasons we move fast is fewer people (Zhang Rui Min, CEO Haier)



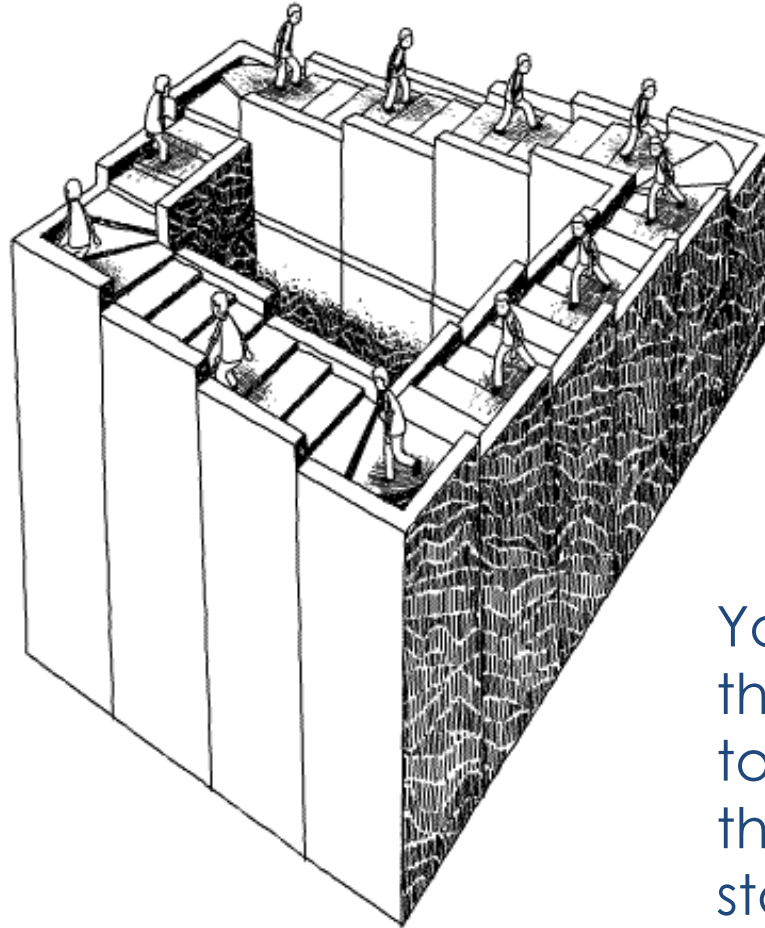
....I get information directly from people at all levels. I keep in touch with people on the ground — people write to me directly. In many cases, I get information I otherwise wouldn't have gotten. There is a form of social control (Martin Winterkorn, CEO Porsche Automobil Holding)

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



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?