

wbs

WARWICK BUSINESS SCHOOL  
THE UNIVERSITY OF WARWICK

Inside Contemporary Business  
*Edition Five 2017*

wbs.ac.uk

**RESEARCH**  
FEATURE ARTICLE:  
**A TRIP TO THE HUMAN ZOO**

# CORE

## The Warwick MBA

The Warwick MBA enables you to apply the latest leadership thinking to a changing and uncertain world.

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# CORE

'An age of unreason is an age of opportunity even if it looks at first sight like the end of all ages.'  
*Charles Handy*

## FIRST WORD

WITH ANDY LOCKETT

# FIRST WORD

2017 has been a landmark year for us. Warwick Business School (WBS) celebrated its 50th anniversary. A good time to take stock of where we are – to look back on what we've achieved and to look forward to what we want to achieve in the next 50 years and beyond. This issue of *Core* is a celebration of those first 50 years.

1967 is remembered as the summer of love: the Beatles released *Sgt Pepper's Lonely Hearts Club Band* and 100,000 hippies converged on the Haight-Ashbury district of San Francisco with flowers in their hair. It was also the year that a fledgling UK university founded Warwick's School of industrial and Business Studies, later to be renamed Warwick Business School.

WBS has come a long way in a relatively short space of time. We are justifiably proud of what WBS has achieved in our first half century. But it is not a time for complacency. Rather it is a time to reaffirm our ambition for the future.

Our vision is unequivocal: to be Europe's leading University-based business school, developing transformational ideas and people that shape how we do business. That vision is supported by our three-fold mission:

- To develop cutting-edge research that leads debate and deepens our understanding of the practice of business and management
- To provide a transformational learning experience, enabling our stakeholders to realise their full potential
- To work in partnership with policy and practice, both in terms of our research and teaching activities, to catalyse the impact of our work.

Our approach is shaped by four core values. Curiosity. Openness. Restlessness. And Excellence. They make the acronym CORE – and they are at the heart of everything we do. They also run through the articles in this issue, my first as Dean.

Curiosity is to the fore with a visit to the Human Zoo with Nick Chater (p74), to understand how behavioural science can help us make better decisions in everyday life; and Pinar Ozcan explains how new forms of economic openness underpin the sharing economy (p68).

Nicos Nicolaou discusses the testosterone-fuelled restlessness of the entrepreneur (p44); and Graeme Currie discusses accountability in the NHS.

No one knows more about institutional and academic excellence than George Bain, who was dean of WBS from 1983 to 1989. A particular highlight for me was talking to George (p6).

We also welcome Des Dearlove and Stuart Crainer, the founders of Thinkers50, the premier ranking of management thinkers, to give their views on the WBS story so far (p10).

Thinkers50 champions ideas. Ideas are what universities are about, but our 50th birthday is a good time to remind ourselves that WBS was founded on the practice of business and management not just the theory. We judge ourselves on the impact we have in the real world. I hope the articles here do our work justice.

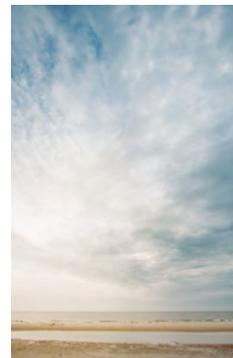
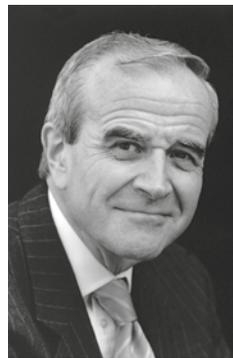
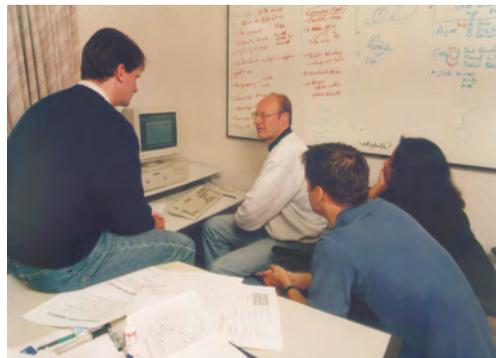
**Professor Andy Lockett**  
Dean of Warwick Business School

**Professor Andy Lockett**  
Dean  
Warwick Business School



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# IN THIS ISSUE



4  
**WBS FOCUS**  
WARWICK  
BUSINESS  
SCHOOL AT 50

Starting with five academics and 24 students, WBS has come a long way

6  
**INSIGHT**  
A LEADING  
VOICE

BY ANDY LOCKETT

The current dean of WBS talks to George Bain, one of the school's first leaders and formative influences

10  
**WBS FOCUS**  
PAST, PRESENT,  
FUTURE: 1967,  
2017, 2067

From the swinging sixties to the uncertainties of the present to the robotic future

14  
**ANALYSIS**  
NEW  
HORIZONS

BY STUART CRAINER  
AND DES DEARLOVE

Business schools and their students are increasingly set on changing the world

20  
**ANALYSIS**  
TRUTH IN THE  
POST-TRUMP  
WORLD

BY KEVIN MORRELL

New research suggests post-truth politics is much older than you might think

26  
**RESEARCH**  
THE TRUTH  
ABOUT LIES

BY NICK LLEWELLYN

When do we lie? And when is it acceptable to do so?

32  
**STRATEGY**  
PE  
LESSONS

BY JOHN COLLEY

Thinking about a merger or acquisition? Look to the world of Private Equity for best practice

38  
**RESEARCH**  
IFS AND  
GUTS

BY DENIZ UCBASARAN

New research sheds light on the roles of experience, intuition and analysis in entrepreneurship

44  
**RESEARCH**  
THE ENTRE-  
PRENEURIAL  
TENDENCY

BY NICOS NICOLAOU

Are entrepreneurs born or made? New research into twins provides fresh perspectives

50  
**STRATEGY**  
THE MBA:  
PAST, PRESENT  
AND FUTURE

BY STEVE COOMBER

WBS is at the heart of the evolution of the MBA, the pre-eminent business qualification of our times

56  
**STRATEGY**  
A MATTER  
OF LIFE  
AND DEATH

BY GEORGINA PETERS

Creating proactively responsible organisations with Graeme Currie

62  
**RESEARCH**  
SUBSTANCE  
OVER STYLE

BY STEVE COOMBER

The Rana Plaza disaster and its effect on managing global supply chains

68  
**ANALYSIS**  
LEARNING  
TO SHARE

BY DES DEARLOVE

Pinar Ozcan's work explores and makes sense of the growth of the sharing economy

74  
**RESEARCH**  
A TRIP TO THE  
HUMAN ZOO

BY STEVE COOMBER

Nick Chater explores behavioural science

80  
**STRATEGY**  
DEAR CEO...

BY CHENGWEI LIU

What does a new CEO absolutely need to know? Chengwei Liu provides his advice

82  
**STRATEGY**  
DEAR CEO...

BY CHRISTIAN STADLER

Christian Stadler pens a personal letter to a CEO

84  
**INSIGHT**  
THE FINAL  
WORD

QUICK Q&A

Maja Korica provides pithy inspiration in our quick interview

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Inside contemporary  
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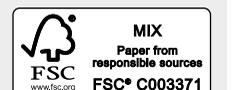
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# WBS AT 50



• **1966**  
Ben Knight joins University of Warwick (and is still here!)

• **1967**  
Founded as the **School of Industrial & Business Studies (SIBS)**, with Brian Houlden the founding Chair (until 1973) – SIBS started with five academic staff, teaching 24 students on three Masters Courses

• **1969**  
First undergraduate course launched



• **1970**  
Industrial Relations Research Unit (IRRU) founded



• **1981**  
Launch of **Full-time MBA**

• **1985**  
Launch of **Evening MBA**

• **1986**  
Launch of **Distance Learning MBA**

• **1988**  
SIBS becomes **WBS** and opening of the MBA Teaching Centre, now the WBS Teaching Centre adjacent to Radcliffe House



• **1990**  
Number of academics at WBS reaches **100**

• **1994**  
Launch of the **MBA** by modular study (now **Executive MBA**)



• **2000**  
WBS becomes first UK school to achieve **triple accreditation**

• **2000**  
**Phase 1** of WBS Scarman Road opened as the Executive MBA Teaching Centre with related office space for staff

• **2001**  
**my.wbs** is launched

• **2002**  
Completion of **Phase 2**

• **2007**  
**Phase 3a** and WBS celebrates its 40th year



• **2010**  
Launch of the **Behavioural Science Group**

• **2011**  
WBS appoints first **Professor of Practice**

• **2014**  
Opening of **WBS at The Shard** and WBS becomes the first business school to achieve Athena Swan Bronze status

• **2015**  
Unofficial opening of **Phase 3b**

• **2016**  
**Bank of England** partnership



• **2017 onwards**  
Looking to the future, our vision for WBS is to be Europe's leading University-based Business School, developing transformational ideas and people that shape how we do business.

This vision is supported by our three-fold mission statement:

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1967

1977

1987

1997

2007

2017

2017+

Students	24
Courses	3
Staff	5

Students	204
Courses	6
Staff	41
Alumni	965

Students	815
Courses	3
Staff	104
Alumni	3,400
Turnover	£3.1m

Students	3,160
Courses	17
Staff	263
Alumni	10,700
Turnover	£12.4m

Students	4,713
Courses	26
Staff	304
Alumni	21,500
Turnover	£36.5m

Students	6,791
Courses	26
Staff	438
Alumni	42,281

The Warwick Business School global community is a network of over **40,000** graduates and students in over **130** countries



CELEBRATING  
**50**  
YEARS  
1967-2017

# A LEADING VOICE

Canadian-born Sir George Bain is one of the most influential academic leaders of the last half century. Educated at the universities of Manitoba and Oxford, he became one of the leading academic researchers in the field of industrial relations. He was chairman of the School of Industrial and Business Studies at Warwick, the original name of Warwick Business School, from 1983 until 1989. He then went on to lead London Business School before becoming president and vice chancellor of Queen's University Belfast. Warwick Business School Dean Andy Lockett interviewed Sir George about the evolution of WBS and much more.

**Q: What were the biggest challenges you faced when you led WBS in 1983 and what surprised you most about coming into the role?**

I had some experience of running research units, but when I took over the school there was no course or programme to prepare you. There were three big challenges.

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*We had to hire really good people in core disciplines, people who were recognised not only as scholars and great teachers, but who were also prepared to carry leadership responsibilities*

First, it was an unbalanced school. It certainly wasn't a business school. The two areas that were predominant and preeminent were industrial relations and operations research. And the subjects that would generally be in a business school, and indeed probably would be regarded as the core subjects – accounting and finance, marketing, strategy, management – were on the periphery.

The strength of the school, certainly in terms of research, generating money, running short courses, those sorts of things, were all in operations research and industrial relations.

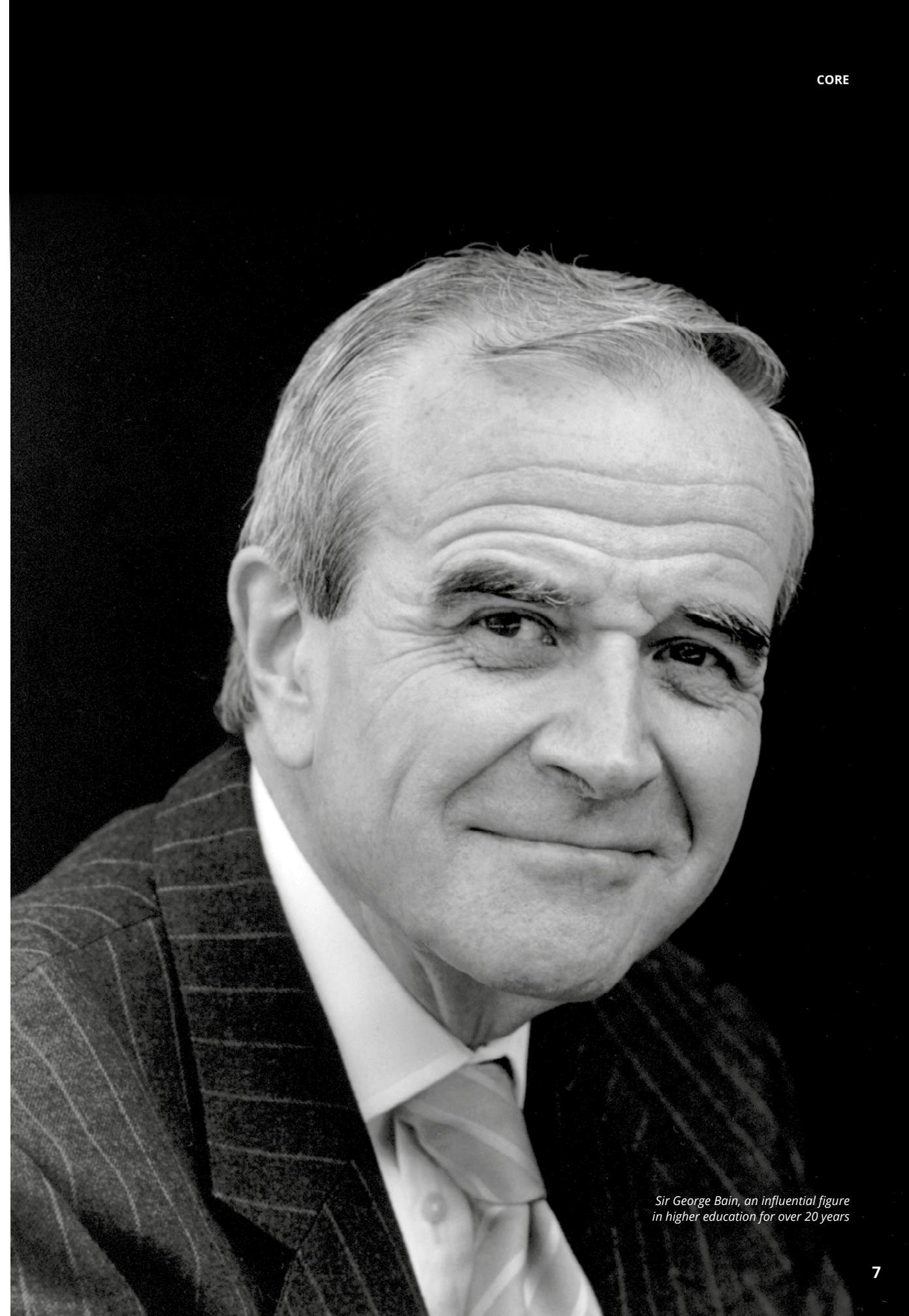
So the first challenge was a completely unbalanced school with great strengths in two non-core areas and not much research strength elsewhere, though there was teaching strength – people like Derek Waterworth who was a superb teacher on all types of courses.

The second challenge, which is related to the first, is that the professoriate, with some exceptions – including Hugh Clegg and Brian Houlden (the first chairman of the school) – wasn't carrying the leadership responsibilities that it should have.

Hence we had to go out and hire really good people in those core disciplines, people who were recognised not only as scholars and great teachers, but who were also prepared to carry leadership responsibilities.

And the third challenge was relations with the university. In the 1980s there was no appreciation at all that a business school was a professional school, and unlike, say, modern languages or history. A professional school, and particularly a business school, had to provide good teaching, research, and consultancy as well as short courses and executive training. The school was expected to generate money for the university.

And not only that, the taxation regime was punitive. In fact, there was no incentive at all to generating money because the university took it all initially, and you more or less had to work on grace and favour to get some of it back.



*Sir George Bain, an influential figure in higher education for over 20 years*

## INSIGHT

A leading voice by Andy Lockett

“”

*It seems to me that teaching basic reasoning and thought processes and different frames of reference for approaching problems is much more important than teaching the five things you should do to make sure your cash flow balances or something of that kind*

So those were the three big things: broadening the school out so it covered the traditional disciplines of a business school. Secondly, building up the professorial leadership with people that were good researchers as well as good teachers, and people who were also good leaders and prepared to nurture and bring other people along. And thirdly, getting the university to realise that we were a different kind of animal and that unless they treated us differently, then we wouldn't flourish and the university wouldn't flourish.

**Q: What was your main ambition in the first year or so after moving into the role?**

I think you must produce some quick wins. One of the major ones was just to provide, and this is slightly self-promoting, leadership. I had been in the Navy so I thought I knew a little about leadership – though leadership in the Navy is perhaps different than an academic institution. In particular, I began negotiating with the university to try to get resources for new people.

The thing that buoyed people up was we began to hire a new generation of people – including Peter Doyle, Robin Wensley, Stuart Hodges and Chris Voss.

My favourite definition of luck is preparation taking advantage of opportunity. And once we got some of these people in post, we had the preparation to take the opportunity.

The first opportunity that came up was a distance learning MBA. And it came up very quickly. One day Jack (Butterworth) called me and the University Registrar Mike Shattock over to meet Wolsey Hall about doing a distance learning MBA. We decided to run with it. Those were key moments. And then, we got good ratings and people began to talk about Warwick.

Attracting the human resources was the quick win we needed. I got along well with Mike Shattock. Any good negotiator will stress that you always

have to see where the other guy's coming from. If you can't appreciate what he's up to, you're almost certainly going to have a strike or disagreement or whatever. And Mike was smart enough to see that we could do something for the university.

**Q: The strange thing, given the school's antecedents in industrial relations, is that IR is not particularly strong in many business schools these days.**

When I took over it was becoming clearer that the world was changing. Mrs Thatcher had come in. The collective side of industrial relations was being reduced, union membership, which had reached a peak at the end of the 1970s, was declining, and so on. You didn't have to be a genius to realise that it was better to merge industrial relations and organisational behaviour into one group, and that is what we did.

Warwick was and is a business school that was always more than a business school. No matter what the name was, it was also a school of industrial and business studies, and included a lot of activities that would not be present in a traditional business school. And I think that was a strength.

**Q: Just picking up from that, when you think about your tenure, what would you say is particularly distinctive about Warwick?**

One of the great strengths of Warwick, if I have to sum it up in a single word, was pluralism.

In the 1970s, I was asked what the school was and I wrote, "We are a broadly based school, including both industrial and business studies, which is integrated into a traditional university setting rather than separate from it, which is research-led, which places strong emphasis on rigour and analysis, and which does not see any fundamental conflict between these qualities and relevance and practice".

There was a tremendous amount of what I call dichotomy thinking in those days. You were

either applied or you were theoretical. You were either left wing or you were right wing. You were either a consultant or a researcher or a teacher or whatever. Later, I coined the phrase balanced excellence. You wanted people who were both good teachers, good researchers, and ideally good leaders or good administrators.

There were numerous people at Warwick who didn't view the world in this dichotomous fashion. They thought we should be doing both teaching and research, and we should be good at both; we should be doing both research which is theoretical, and research which is applied.

There was room for both and it wasn't a question of tolerating both. There was a view that the two would strengthen each other, that there would be an interplay and you'd be stronger because you had all these strands in the school.

**Q: What role did the faculty have in leadership of the school?**

You can't expect everyone to exhibit great leadership capacity but you can expect it at a very simple collegiate level. Senior faculty can provide mentorship and collegiality towards more junior colleagues and develop their talent. So at a very simple level we worked hard to reward things other than publications.

People like Derek Waterworth, Hugh Clegg, Willy Brown, Peter Doyle, Robin Wensley and Chris Voss realised their responsibility was to develop young people. I think you have to reward that or you fail. The well dries up. People who want to do that tend to be much more interesting people to be around than those who are obsessed with their papers.

**Q: What should business schools be teaching students today?**

I've felt for a long time that teaching technique and teaching cookbook methods are not what business schools should be doing – and Warwick never has.



I would argue this with all subjects, really, that given the rate of change, you have no idea what's going to be required in 10 years, let alone 50. And we all know that people like my father, who spent 50 years working for one employer on the railway, have disappeared a long time ago.

We're all going to have a portfolio of careers of one sort or another. We just don't know what the future will hold. And therefore, it seems to me that teaching basic reasoning and thought processes and different frames of reference for approaching problems is much more important than teaching the five things you should do to make sure your cash flow balances or something of that kind.

I look back on my own life. I did economics and political science, subjects with a strong theoretical basis as well as an applied focus. The theoretical frameworks may now be more or less helpful. But they give you a way of approaching a problem or a subject.

So if somebody was asking what we should be doing in business schools or other university departments, I would argue strongly that it should be teaching what universities are supposed to be about – analytical reasoning, albeit applying it to a certain set of problems – business problems for business schools.

Now that's hardly a very revolutionary answer, but I think it's even more important now that we do it.

“”

*My favourite definition of luck is preparation taking advantage of opportunity*

Professor Andy Lockett is Dean of WBS, and is recognised as one of the world's 100 leading professors in the field of entrepreneurship. He has also been identified as one of the top 50 Technology Innovation Management scholars in the world



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# PAST, PRESENT, FUTURE

As WBS celebrates its 50th anniversary, we take a look into the past, present, and future, some of the social and economic events and trends, real and imagined, in its evolution.

## << 1967

1967 was a year of contrasts. In America, 100,000 hippies embraced the Summer of Love in San Francisco to the soundtrack of the Beatles' *Sgt. Pepper's Lonely Hearts Club Band* album. When they were not tuning in and dropping out, the same counter culturists were protesting against the Vietnam War. Elsewhere that summer, race riots erupted in Detroit; 43 people died, 1,189 were injured and over 2,000 buildings destroyed before the Army restored order.

The Six Day Arab-Israeli war in June laid the foundations for future discord in the Middle East, but led to a brief thaw in the Cold War as US President Lyndon B. Johnson met USSR Premier Alexei Kosygin in New Jersey to discuss the Middle East, Vietnam War, and the US-USSR arms race. In Europe, a merger treaty forged a single executive body for the European Coal and Steel Community, European Atomic Energy Community, and the European Economic Community (EEC). It was the beginning of the modern European Union. The UK applied to join the EEC, but was rebuffed by France.

In science the world marvelled at news of the first successful human-to-human heart transplant, and gathered to watch the first live international satellite broadcast – the Beatles sang *All You Need is Love*.



Economic fortunes varied. In the EEC, West Germany's post-war economic miracle, which ran until the early 1970s, was nearing the end of a two year lull. Meanwhile, Japan's annual GNP growth of around 12 per cent, powered it past the UK in 1966, on track to overtake West Germany in 1968 and become the world's third biggest economy. Heading into an election year, by late 1967 the US economy was booming. The largest firms in the *Fortune 500* were industrials such as General Motors, Standard Oil, Ford and GE, although IBM at #7 hinted at the rise of tech firms to come.

For the UK, 1967 was a year of economic crisis, strikes, growing unemployment, relatively poor productivity, and excessive borrowing to shore up sterling. The Six Day War increased energy costs and import prices, exports fell, and the government was forced into an embarrassing currency devaluation.

In management the 1960s was the decade when corporate strategy came to the fore with the publication of Alfred Chandler's *Strategy and Structure* (1962), Peter Drucker's *Managing for Results* (1964) and Igor Ansoff's *Corporate Strategy* (1965). Management was beginning to be accepted as a profession, boosting demand for management qualifications and business schools to provide them.

In 1965 Manchester and London Business Schools opened with the backing of the UK government. Shortly afterwards, two years after the University of Warwick was founded, Warwick Business School began life as the School of Industrial & Business Studies (SIBS). From the beginning the aim was to become a centre of excellence for both teaching and research. Led by Professor Brian Houlden who would chair the school for seven years, SIBS started out with five academic staff, teaching 24 students on three courses, the MSc in Management and Business Studies, the MSc in Management Science and Operational Research, and the Doctoral Programme. In a little over a decade numbers would grow to 41 members of faculty and over 200 students taking six degree courses.

## > 2017 <

As WBS headed into its 51st year, the tumultuous events of 2016 were set to cast a long shadow over 2017. In a momentous year of geopolitical turmoil the UK had voted to leave the European Union. It was a decision that continued to dominate life in the UK, and to some extent the EU, as the UK government triggered Article 50 and Brexit negotiations got underway in 2017.

In a similar manner, repercussions from the election of Donald Trump as President of the USA in 2016, an anti-establishment political outsider, continued to reverberate throughout America and around the world. President Trump promised to put "America first". Early on, the Trump administration, by abandoning the Trans-Pacific Partnership (TPP) trade agreement, and stating its intention to renegotiate NAFTA, signalled a more protectionist approach to trade. Similarly, with pronouncements on NATO funding, the Trump administration risked undermining the collective voice underpinning NATO's authority. Russia, China, and other global economies, looked on, considering how best to react in the light of America's change in direction.

Many of the world's leading financial markets performed remarkably well after the financial crash of 2008. In 2017, the benchmark S&P 500 index in the US posted the second longest bull run since the end of World War II. But while globalisation and asset price inflation increased living standards for some, many did not benefit. Indeed, inequality and the widening wealth and opportunity gap, between political and business elites and ordinary citizens, was high up the agenda of the annual World Economic Forum at Davos in January 2017.

Several of the leading *Fortune 500* firms in 2017 were the same as in the 1967 list. Ford, General Motors, and GE remained in the top 20, for example. However, other corporations in the top 20, including Walmart at #1, Apple, Amazon.com, McKesson and HP, reflected a changing world: growth in disposable income, retail

**WBS FOCUS**

*Past, Present, Future 50th Anniversary*

spending and supermarkets; the ubiquity of personal computing, fibre optics, communication satellites, the development of the internet and rise of the smartphone; advances in medicine and biotechnology and the wider availability and greater cost of pharmaceuticals and patient treatments.

SIBS changed with the times too. The school began its MBA programme in 1981, and soon added distance learning and Executive MBAs to its roster. In 1988, SIBS became Warwick Business School, the same year the dedicated MBA teaching centre opened. By 2017 the school had over 400 faculty members, ran some 26 undergraduate, postgraduate, and executive education programmes had a broader community of over 30,000 graduates, and had launched WBS London based in the iconic Shard building.

The school always attempted to ensure that its business education and research kept pace with the fast changing business world, covering new approaches to management and finance and emerging topics such as business analytics, digital innovation, and behavioural finance. For example, the 2016 appointment as Dean of Andy Lockett, professor of strategy and entrepreneurship, recognised the growing numbers of potential students wanting to start their own business; the flagship MBA launched an Entrepreneurship Specialism in early 2017, allowing entrepreneurs and intrapreneurs to develop their business idea while earning an MBA.

“”

*With recent confirmation of the reversal of the ageing process, and exciting progress in cybernetics and space travel, who knows what the next 50 years hold for WBS*

*Pictured right: Andy Lockett, Dean of Warwick Business School*



**2067 >>**

Celebrating its 100th anniversary, Warwick Business School announced the opening of a second campus in China, the world's leading economy, situated in Pearl River Delta megacity.

The last fifty years have seen some seismic shifts in the way people live and work. In 2017 there were grim predictions about future resource shortages, especially those related to climate change. Fortunately, despite America's lost decade of isolationism, a global consortium of scientists and corporations, working in tandem with national governments, took huge strides in CO<sub>2</sub> reduction via the development of clean energy technologies, notably nuclear fusion. Man-made climate change has stabilised for now.

Population pressure is not as great as predicted by the UN back in the 2000s, either. The mutated Zika virus pandemic that struck in 2018 dramatically increased infant mortality rates. In the decade it took to find and deploy an effective treatment, improvements in living standards in Africa and Asia slowed population growth rates. Consequently, the global population reached eight billion in 2060, rather than 2024.

Nevertheless, many resource challenges remain. Over two-thirds of the world's population live in cities with inadequate infrastructure. Millions suffer from poor sanitation. Water scarcity affects over 50 per cent of the planet's inhabitants. The food pill solution to hunger, made feasible by recent bio-engineering research, is still several years away.

In 2017 the business world and management academics were speculating about the potential impact of artificial intelligence and robotics. Few, however, predicted the speed and scale of the transformation. A tipping point was reached in the early 2020s as advances in nanocomputing, especially quantum and biochemical computing, coupled with deep learning, created artificial intelligence that passed the successor to the

original Turing test. At the same time new robotics and virtual reality technologies helped to radically reshape business and economics.

Increased automation and the corresponding unemployment it created, provoked a rethinking of traditional shareholder models. Instead, citizen-state ownership has become far more prevalent. Global ratings of organisations, as with remuneration and rewards, tend to be customer satisfaction based. There are still some familiar names from 50 years ago among the high performers. Toyota and General Motors, in particular, benefitted from laws in 2037 that made self-driving vehicles mandatory. The most obvious trend, though, is the meteoric rise of new organisations providing comprehensive entertainment solutions to Generation Leisure.

As has always been the case, business education and research has adapted and survived. The advent of learning implants and new avatar communications technology in the 2040s prompted a temporary fall in student numbers. But the blend of tuition, hands-on practice and real-life peer-to-peer interaction provided by traditional business schools such as WBS, ultimately proved more compelling.

During recent decades WBS has joined forces with several international business schools, increasing reach and scope. Automation may have stripped out layers of managers in most disciplines, but there has been a huge increase in demand for managers with design and planning skills, as there has for managers in the entertainment industries. Hence the introduction of the world leading MBA specialisms in Planning & Design and Entertainment & Leisure.

With recent confirmation of the reversal of the ageing process, and exciting progress in cybernetics and space travel, who knows what the next 50 years hold for the school.

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# NEW HORIZONS

From a narrow science, management has become an inclusive and wide ranging discipline. Business schools have followed suit.

“Underlying the practice and study of business is the belief that management is a science and that business decisions must be driven by rigorous analysis of data,” write Roger Martin and Tony Golsby-Smith in a 2017 *Harvard Business Review* article entitled “Management is much more than a science”.

The rise of business schools during the last hundred years emerged out of the understanding of management as a science and has cemented the discipline’s scientific bent.

The instigator of the scientific view of management was Frederick Winslow Taylor (1856-1915). Taylor was a man of devotedly practical intent, a problem solver. Working with the metallurgist Maunsel White, he developed the Taylor-White Process for treating tool steel. This revolutionised metal cutting and enabled the development of mass production techniques. Taylor’s restless inventiveness spawned over 40 patents and made him a fortune. These covered everything from 1909’s “Apparatus for Moving Growing Trees and the Like” to a revolutionary “Power Hammer,” built for the Midvale Steel Company in the late 1880s; from an apparatus for grinding balls (1900) to a “combined hothouse graperly and greenhouse” (1907).

Taylor’s take on management was “Scientific Management” (described by him as “seventy-five per cent science and twenty-five per cent common sense”) which made Taylor one of the most influential figures of the twentieth century. Even today, his influence remains strong. A *Fortune* article noted: “Taylor’s influence is omnipresent:

It’s his ideas that determine how many burgers McDonald’s expects its flippers to flip or how many callers the phone company expects its operators to assist.”

The origins of Scientific Management lay in Taylor’s observations of his fellow workers. Armed with a stopwatch, he examined in intimate detail exactly what happened and how long it took. Taylor surmised that minute examination of a task would enable the observer to establish the best means of carrying out the job. A single preferred, efficient means of completing the task could then be established and insisted on in the future. Working in the most efficient manner, Taylor calculated that a theoretical pig iron handler called Schmidt could load 47 tons a day rather than the more usual 12½ tons.

This meant that workers would know exactly what was expected of them and that managers knew exactly how much should be produced. It also meant that more accurate piece work rates could be set with more reliable bonuses and penalties.

The implications of Taylor’s philosophy were felt across the world. It was the TQM or intellectual capital of its day. Taylor’s work was known and devoured in Japan. In Russia, Lenin was a fan. In France his champion was the metallurgist, Henri Le Chatelier. By the time of Taylor’s death, two editions of the French translation of *The Principles of Scientific Management*, had been printed and 4,000 sold (another 3,000 had been, according to Chatelier, “gratuitously distributed”).

Taylor’s message was timely. The obvious assumption of Taylor’s philosophy – and Henry Ford’s eventual practice – was that more was good. The need to produce more and in a more efficient

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*The rise of business schools during the last hundred years emerged out of the understanding of management as a science and has cemented the discipline’s scientific bent*



## ANALYSIS

*New horizons by Stuart Crainer and Des Dearlove*

way was taken as a first principle. As markets stood waiting to be invented and discovered, this was a fair conclusion. The world was desperate to produce more, to be able to manage its fledgling industries in more efficient ways. Taylor's ideas were of their time and for their time.

The pursuit of more – more production, more markets – was the managerial quest of the twentieth-century. Taylor provided the means. The ends were assumed and accepted by virtually all who considered them.

Peter Drucker argued that management's great achievement of the twentieth century was to increase the productivity of manual workers fifty-fold. While this cannot be under-estimated, it is not the great challenge of this century. This, according to Drucker, is to increase the productivity of knowledge workers.

**More than science**

The twentieth century development of business schools was built on management as a science. Their continuing evolution points to new and expanding horizons. This is demonstrated by the development of Warwick Business School (WBS).

In Europe WBS was in the vanguard. It started life in 1967 as the School of Industrial & Business Studies (SIBS), two years after the founding of the University of Warwick. SIBS began with five academic staff, teaching 24 students on three courses. These were the MSc in Management & Business Studies, the MSc in Management Science & Operational Research, which continues to this day although with a wider focus and a greater number of options, and the Doctoral Programme.

During the 1980s, the MSc in Management & Business Studies was re-engineered into a full-time MBA programme by Professor Peter Doyle together with Programme Manager Bill Manuel. The Warwick MBA went on to be offered in two part-time versions – by Distance Learning, and

the Evening and Integrated MBA – forerunners of today's Executive MBA.

The modern-day Warwick MBA – more accurately, a range of full-time, part-time and online MBA programmes – is radically different to what went before. The MBA used to come in one colour. Now an array are on offer. But it is not only the range of formats which are different. The *raison d'être* of the Warwick MBA has changed.

Business schools were once focused solely on producing ever greater numbers of MBA graduates who headed off to work in finance or consulting. Now, business schools and their students want to change the world – and an MBA holds the key.

The horizons of business schools are ever expanding. "Management has the potential to be among the most noble of professions," says Santiago Iñiguez, chair of the business school accreditation agency, AACSB. "It can create growth, wealth, and development in society, as well as catalyse innovation and improve living conditions."

"In the 20th century, business schools churned out self-centred smart leaders who applied their intelligence solely to maximise shareholder value," says Navi Radjou, author of *Frugal Innovation*.

"In the coming decade, however, I see business schools training what I call wise leaders, purpose-driven individuals with a business mind and social heart who boldly tackle the world's pressing socio-economic challenges and still generate profit and growth for their company. Wise leaders are liminal beings who can transcend public, private, and nonprofit boundaries and integrate conflicting viewpoints and unify disparate energies to serve a noble purpose. Unlike smart leaders, who compete for a tiny share of a small pie, wise leaders seek to co-create a much larger pie for everyone to share."

**The extra lean MBA**

This is reflected in the changing programmes and subjects of study offered by business schools.



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*The modern-day Warwick MBA is radically different to what went before. The MBA used to come in one colour. Now an array are on offer*



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*An MBA is no longer a full stop in business education. One of the intriguing things about business schools is that at each stage when their development seems to have plateaued they think of new products*



The traditional format of an MBA programme focused on the different functions of business. Programmes marched students through strategy and then onward to organisational behaviour, accounting, economics and so on. The actual content of programmes was very similar from school to school.

Business schools were somewhat late converts to the entrepreneurial world. The two central reasons for this were first that entrepreneurial businesses were not regarded as the economic growth engines they now are. In the past, growth came from big companies doing things better through economies of scale and new management tools. Business schools, therefore, tended to have a big corporate perspective. And, second, previously MBA students simply didn't aspire to be entrepreneurs. They headed for management consulting and investment banking to further their careers. This is no longer the case as many MBA students are already entrepreneurs or aspire to be entrepreneurs.

A new MBA module on the Warwick MBA will take students to Silicon Valley so they can sample the entrepreneurial spirit in the home of the tech start-up. Thousands of companies are headquartered in Silicon Valley, with 39 of the *Fortune 100* companies based there, while San Francisco and the Bay Area has the highest concentration of venture capital funding in the world, swallowing 15.4 per cent of the \$42 billion invested globally.

John Lyon, Professor of Practice in the Entrepreneurship & Innovation group who worked in Silicon Valley when Global Vice President of clinical trials giant Covance, said: "This is a great chance for students to bring back some of the magic of Silicon Valley. It is like no place on earth, where the entrepreneurial spirit is celebrated and venture capitalists are on the hunt for the next Uber or Facebook.

The module involves lectures and visits to entrepreneurs, venture capitalists and angel investors. It is available on the Executive MBA or on the MBA with Entrepreneurship Specialism, which also includes a module on Entrepreneurship and New Venture Creation plus the chance to develop your start-up idea alongside academics and experts from industry.

Professor Lyon, who has also held non-executive and chairman roles as a venture capitalist and angel investor, said: "We will be using seasoned Silicon Valley entrepreneurs and real life businesses

to take the students through the journey of a start-up; how to get finance, build the product and people, the pitching, rounds of funding and slowly grow the business.

As another example of the changing shape of the MBA, LeadershipPlus is now a required module on the full-time MBA designed to fully develop the leadership skills of students. The module includes: a 10-day experiential workshop programme focusing on high performing teams, emotional intelligence, courageous conversations and leading with authenticity; a nine-week group-based corporate or not-for-profit client project running from January to March, where teams tackle a real, specific business issue; and a week-long international study residential at one of WBS's partner institutions.

**MBA and beyond**

And an MBA is no longer a full stop in business education. One of the intriguing things about



business schools is that at each stage when their development seems to have plateaued they think of new products. Recent years have seen the rise of masters programmes targeted at new graduates. Now, business schools are looking at more mature students and the growing number of retirees with time on their hands.

WBS runs its Doctor of Business Administration (DBA) from The Shard in London, Europe's tallest building. This bold move is reaping immediate dividends says Chris Beer, a partner at the business leader mentoring firm Merryck & Co. and co-director of the Warwick DBA.

A four-year part-time programme, the Warwick DBA is now in its second year of operation. "Demand is high," reports Beer. "We did a lot of research into the market and, as a result, developed a very different programme with a focus on practice rather than research. It is not an MBA on steroids but something challenging, stretching and very different. It attracts practitioners who want to make a difference whether as entrepreneurs or in big companies."

Making a difference is the mantra of our times, not only to individuals and businesses, but to communities and societies.

Stuart Crainer and Des Dearlove are the founders of the Thinkers50, [thinkers50.com](http://thinkers50.com)



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ANALYSIS BY KEVIN MORRELL

# TRUTH IN THE POST-TRUMP WORLD

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*The [post-truth] phenomenon pre-dates this modern political period too. Almost a century earlier, in the 1850s, there was a US election campaign that was even dirtier than 2016*

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For many people, Donald Trump's shock victory in the US Presidential election exemplifies a new era of post-truth politics. For them the phrase has come to symbolise a new low in public discourse where facts come a distant second to populist appeals. But, post-truth politics is much older than you might think.

In August 2016, Donald Trump declared Barack Obama was “the founder of Isis” and its “most valuable player.” Neither statement was true but both were designed to create controversy and stick in the minds of sympathetic voters. A few days later, when it caused a media furore, Trump tweeted “THEY DON'T GET SARCASM?”

Trump added that he was merely voicing what others were thinking. “I don't know, but that's what some people are saying,” he said (even though no one had even suggested it before he did). It was vintage Trump: an outrageous claim followed by an ambiguous disclaimer.

So prevalent has it become that ‘post-truth’ was *Oxford Dictionary's* word of 2016. Defined as “circumstances in which objective facts are less influential in shaping public opinion than appeals to emotion and personal belief,” the phenomenon is associated in many people's minds with Brexit and the rise of Trump and other populist politicians. But how old is post-truth politics?

The phrase has been attributed to the journalist David Roberts in a 2010 article in *Grist* magazine, but it has a much older provenance. One reference point is the “big lie” propaganda of the 1930s. Hannah Arendt's 1967 *New Yorker* essay ‘Truth and Politics’ identified the real danger of this period, “if the modern political lies are so big that they require a complete rearrangement of the whole factual texture – the making of another reality, as it were, into which they will fit without seam, crack, or fissure... what prevents these new stories, images, and non-facts from becoming an adequate substitute for reality?”

## ANALYSIS

*Truth in the Post-Trump World by Kevin Morrell*

But the phenomenon pre-dates this modern political period too. Almost a century earlier, in the 1850s, there was a US election campaign that was even dirtier than 2016, where the anti-immigration party, the “know nothings”, actively celebrated ignorance of their own party’s clandestine activities.

Further back still, before US independence, the satirist John Arbuthnot, a friend of Jonathan Swift and Alexander Pope, wrote, “Falsehood flies, and the truth comes limping after it, so that when men come to be undeceived, it is too late... like a physician who has found out an infallible medicine after the patient is dead.”

Arbuthnot’s observation was prescient. A characteristic of today’s post-truth politics is how rapidly and shamelessly the untruth can be discarded once it has done its poisonous work. The Leave campaign’s claim that the UK sent £350 million a week to the EU that could be used to fund the NHS (the patient) was writ large on the side of a bus and repeated so often that it took on the illusion of fact. Yet already by the morning of the referendum result Nigel Farage, the leader of UKIP, was describing it as a “mistake”, conveniently excusing both the lie and the fact that his own salary as an MEP contributed towards it.

**Lying, next to Cleon**

Arbuthnot entitled his 1712 essay *The Art of Political Lying*. But the age of post-truth politics began earlier still. Two thousand years earlier, in 350 B.C., Aristotle’s *Constitution of Athens* referred to a populist demagogue called Cleon. Describing him in a way that Trump critics might recognise, Aristotle noted that Cleon was “the cause of the corruption of the democracy by his wild undertakings.”

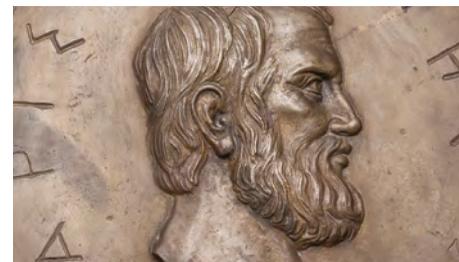
A closer look at Cleon invites several more parallels with Trump. Like the Donald, Cleon was a businessman who came late to politics. He inherited his wealth from his father in the form of a tannery – a leather factory and the Athenian equivalent of “blue-collar”.

Like Trump, too, Cleon rose to power at a time of public dissatisfaction with conventional politicians. The year was 430 B.C., a desperate time for Athens because it was at war with Sparta and was simultaneously devastated by plague. Cleon turned the divisions within Athenian society to his advantage. The ancient Greek essayist Plutarch describes him as someone who “catered to the pleasure of the Athenians,” with a combination of “mad vanity”, “versatile buffoonery” and “disgusting boldness.”

Cleon had a distinctive and shocking communication style, one Athenians had never seen before. While speaking, Cleon would hitch his cloak up and slap his thighs, running and yelling at the crowds. Aristotle says he was “the first to use unseemly shouting and coarse abuse.” The first, but not the last.

Aside from this radically new communication style, Cleon’s populism was based on attacking two enemies. First, though establishment himself, he was an anti-establishment figure, pursuing “relentless persecution of the upper classes”. Second, he was a flag-waving xenophobe, antagonistic towards Athens’ rival and (partly thanks to Cleon) bitter enemy Sparta, as well as to the city of Mytilene, which wanted independence from Athens. The Athenian general and historian Thucydides wrote of a speech where Cleon expressed admiration for Mytilene’s “unassailable” walls.

A later Athenian writer, Lucian, suggests Cleon made money from exploiting his office and that he was “venal to excess”. He was boastful, bragging that he could win a war against the Spartans by himself. He was thin-skinned and censorious, as well as a litigious bully. Cleon tried, unsuccessfully, to have the satirist Aristophanes prosecuted for writing *The Babylonians*, which he considered a treasonable play – in the process turning Aristophanes into a life-long enemy.



**Clockwise from top:**  
The infamous ‘£350m EU/NHS’ Brexit battlebus  
One example of Trump’s Twitter communication style  
Cleon is best known through Aristophanes’ play *The Knights*  
Nigel Farage – MEP, lead cheerleader for Brexit, and then leader of UKIP

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*Cleon’s brand of post-truth politics flourished because when life is extremely hard, facts are not as novel or distracting as sensationalism*

He accused Athenian generals of incompetence (echoes again of Trump) and in establishment-bashing mode tried, unsuccessfully, to prosecute one of them (Laches). He was held responsible for the eventual exile of another – Thucydides. His antagonistic rhetoric meant that Cleon became the biggest obstacle to normal relations with Sparta and within a year of his death a peace treaty was agreed.

History was certainly not kind to Cleon – no surprise perhaps given that he exiled the most eminent Athenian historian and tried to silence the most influential Athenian satirist. (Perhaps there is a lesson for modern day post-truth politicians who wish to silence the media and the satirists.) Nowadays Cleon is best known through Aristophanes’ play *The Knights* (a far ruder precursor to the US TV show *Saturday Night Live*). *The Knights* has an unusually small cast because it is essentially a relentless assault on the character



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Paphlagon (obviously Cleon): “the leather-seller” with a “gaping arse”, “a perfect glutton for beans” who loudly “farts and snores”, an “arrant rogue” and “mud-stirrer” with a “pig’s education” and the “stink of leather”, “this villain, this villain, this villain! I cannot say the word too often, for he is a villain a thousand times a day.”

Cleon may well have had a front row seat for *The Knights*, where he would have seen Aristophanes playing the part of Paphlagon, presumably because no-one else dared to. Characters were masked but no prop-maker dared make a mask resembling Cleon. We might imagine Cleon later writing a review of *The Knights*: “a totally one-sided, biased show – nothing funny at all. Unwatchable! The Theatre must always be a safe and special place. Apologise!” and so on. What matters is that Aristophanes’ contemporaries awarded *The Knights* first prize at the Lenaia festival (something like Athens’ equivalent of the Cannes Festival).

Cleon’s brand of post-truth politics flourished because when life is extremely hard, facts are not as novel or distracting as sensationalism. Some Athenians were won over by the novel spectacle of yelling, coarse abuse and thigh slapping – and distracted by diversionary ranting against Sparta.

## ANALYSIS

*Truth in the Post-Trump World by Kevin Morrell*

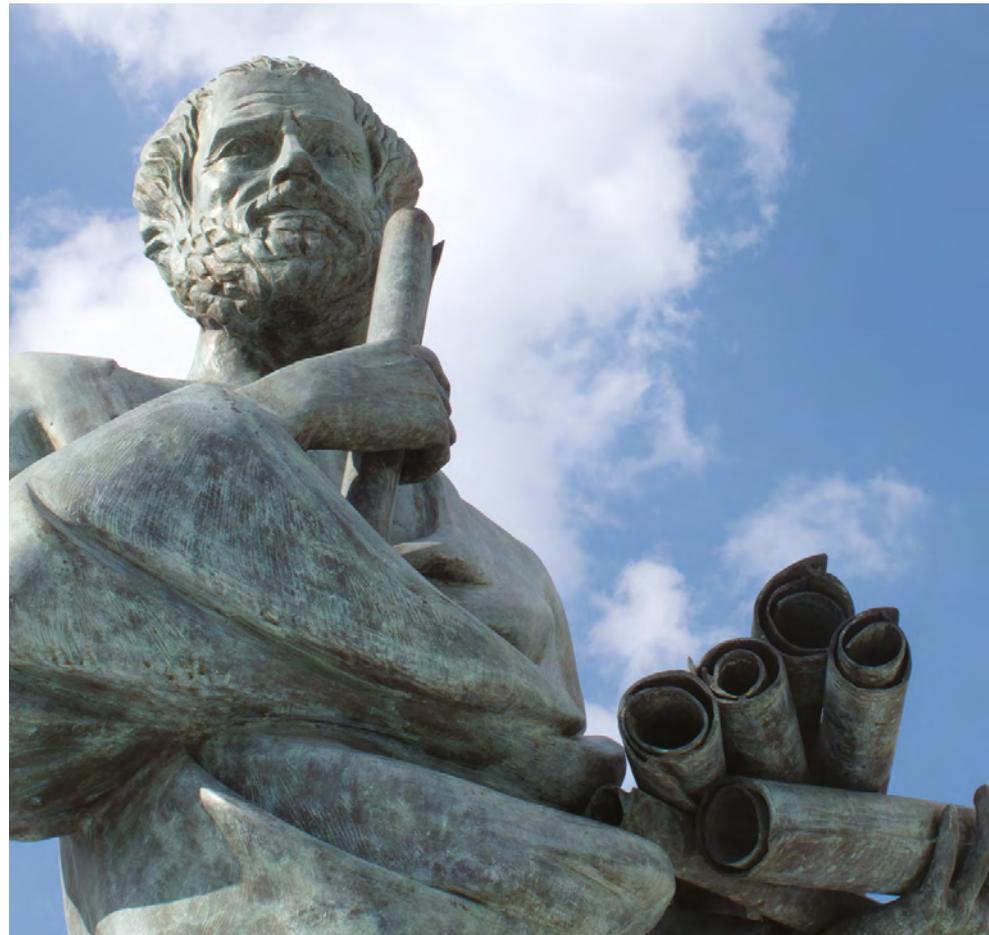
## Imperfect storms

Critics of Brexit and President Trump could say contemporary voters were won over by bus-sized gimmicks (Brexit) and tweet-sized slogans, which helped to paint “enemy” over the faces of an anonymous “other”. Populism and appeals to emotion will always work on some people and when times are bad enough, they will work on enough people.

Timing, of course, plays its part. Arguably, 2016 was a perfect storm with the Brexit result creating momentum for the Trump campaign because millions of people in the UK and the US were desperate for change. But Leave voters and Trump supporters would argue that it is precisely that elitist attitude – assuming that the insiders know best – that caused so many people to become disaffected with the “establishment truth” to the point of preferring the post-truth version of reality.

Perhaps, too, we shouldn't be so shocked by the leaders we get. Professor Jeffrey Pfeffer from Stanford University observes, many of Trump's perceived faults are actually leadership assets in other walks of life. He is, “frequently untruthful and inaccurate in his statements, and pays little attention to facts and data,” Pfeffer wrote in his LinkedIn blog in December 2016. “What many observers somehow fail to appreciate is that these qualities are actually typical of leaders in many sectors and, moreover, are not so much faults as fundamental bases for becoming a powerful leader.”

“Research consistently shows that... unwarranted self-confidence, self-promotion, and self-aggrandisement predict leader emergence – in experiments, in field data, even in the US military. The evidence for the effects... on group or organisational performance is more equivocal, although one overlooked study of US presidents found that a related trait, fearless dominance, did predict some dimensions of presidential performance such as crisis management, Congressional relations, and persuasiveness.”



Above:  
Aristotle – a basis for Western  
philosophy and civilisation



*In the Rhetoric, Aristotle gave us all the tools we need to see through a Cleon. Aristotle wanted rhetoric to be widely understood so politicians' arguments were evaluated on their merits rather than the wrapper (or bus) they arrived in*



As Pfeffer also points out, in his book *Leadership BS*, there is plenty of evidence that lying may be one of the most useful and important traits of leaders. “People lie all the time with few to no consequences. That includes the tobacco industry executives who testified that they were unaware about the studies their own companies conducted demonstrating the adverse health effects of smoking; the numerous financial industry executives who maintained that their balance sheets were sound as they headed into bankruptcy or had to raise capital at distressed prices during the 2008 financial crisis, and even Apple's late founder, Steve Jobs, about whom the phrase, ‘reality distortion field’ was coined.”

## Silver linings

Trump is not the first post-truth leader, and he almost certainly won't be the last.

One consolation for Trump's opponents and Remainers is that the Athenians kept Cleon partly in check using existing governance mechanisms – the courts. They can also take comfort that contemporary culture remembers Cleon through the eyes of his bitter enemy Aristophanes.

Cleon's era was horrific yet it also became a golden age for satire and saw the birth of the discipline of history. The worst fears for the Trump presidency are bleak, but civilization survived Cleon, and shortly after his death another kind of Athenian golden age was ushered in – in which



Socrates, Plato and Aristotle laid down the basis for Western philosophy and civilisation. These great thinkers taught the importance of scepticism and scrutiny, and of virtue. They placed the ultimate premium on the search for knowledge and truth.

In the *Rhetoric*, Aristotle gave us all the tools we need to see through a Cleon. Aristotle wanted rhetoric to be widely understood so politicians' arguments were evaluated on their merits rather than the wrapper (or bus) they arrived in.

There are innumerable points of contrast with ancient Athens of course. Most bleakly, all have to pray the weapons that contemporary Cleons control are never used. Hopefully the world will keep turning and sense will return. Brave figures like Aristophanes did perpetually fight prejudice and Thucydides fought to record facts. Even if we are not as brave maybe Aristophanes' example can help us maintain an ironic distance, seeing some of the horror and nonsense as an aesthetic spectacle. While doing so we can all support commentators, critics and comics; fiercely reject any sort of censorship of theatre; respect history; defend our courts (this being absolutely vital); and work hard to keep a sense of humour (and a sense of the ridiculous).

Let's hope we are still around to raise a smile (and a glass) to post-Trump politics and the post-post-truth era.

Professor Kevin Morrell is Head of the Strategy and International Business group at WBS, and specialises in understanding public sector organisations. He is the author of *Organisation, Society and Politics: An Aristotelian Perspective* and co-author of *The Ethical Business* and *The Realities of Work*



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# THE TRUTH ABOUT LIES



Lying is a fact of life and, especially business life. Nick Llewellyn's research sheds unique light on this murky reality.

"There are three types of lies," Benjamin Disraeli famously observed, "lies, damned lies, and statistics." In reality, though, we all know that lies come in many more guises. And some of them are more socially acceptable than others. So what is the truth about lying?

Religions tend to frown on all lies – "thou shalt not bear false witness," the Bible says. But secular life is rarely so black and white. Research indicates that lying is actually more complicated than you might think.

Much of the research in this area looks at our ability to detect lies. Typically it is carried out in experimental settings, creating artificial environments and then measuring the response of participants. So, for example, researchers might take a police interview scenario and video it. Then, later, they might extract the part where the interviewee was known to have lied and show the footage to participants in the experiment and ask them to say whether it is true or false.

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*Religions tend to frown on all lies – "thou shalt not bear false witness," the Bible says. But secular life is rarely so black and white. Research indicates that lying is actually more complicated than you might think*

My research approach is different in two ways. First, I am less concerned with whether someone is lying and more with how people respond when they are caught out. Second, as far as possible, my research seeks to study the phenomenon where it occurs naturally rather than setting up experiments in the lab. That means seeking out every-day situations where people tell lies. By observing liars in their natural habitat we can begin to understand the social currency of lies.

## When is a lie not a lie?

Human beings use lies as a social lubricant, but there are implicit rules. So when is it OK to lie and when is it not?

Most of us accept that some degree of lying is necessary – and even desirable – to get through life. If you receive an unwanted gift, for example, it is considered rude to say so. Similarly, it is generally accepted that telling a loved one that they look awful in that outfit or with that hair cut is a truth too far.

We even have a special vocabulary to identify the seriousness and extent of a lie. Little white lies, for example, don't really count as lies at all. Then there are fibs, which are so small as to be negligible.

These labels are designed to lessen the offence, of course. Similarly, there are tall stories, whoppers and porky pies. And there are the inevitable (and convenient) grey areas. Treachery, on the other hand, is unforgiveable. And perjury – lying on oath – is both heinous and illegal and can carry a prison sentence. Change the word and you change the nuance.

In each case, it is the situational context or intent rather than the truthfulness that makes the difference. Interestingly, too, my research indicates that the same applies to whether a lie is considered socially acceptable or not. And, even when it is permissible, we find that when they are caught out people will go to great lengths to avoid being labelled as liars.

## Lie detectors Inc.

Lie detection is big business. An entire industry exists around revealing untruths and understanding the underlying motivations and trustworthiness of their perpetrators.

Most lie detection techniques are based on what psychologists call the cognitive burden – the strain of lying – that will manifest itself in some way or another. Techniques include identifying tell-tale signals, so-called 'tells' – scratching your nose, for example – or more scientific methods such as lie detector (polygraph) tests and brain scans.

## RESEARCH

*The truth about lies by Nick Llewellyn*

In some countries, including the US, it is commonplace to be asked to take a lie detector (polygraph) test as part of the job interview process. According to the American Polygraph Association (established in 1966 and boasting more than 2,700 members) over 250 studies have been conducted over the past 25 years on the efficacy of polygraph testing. It is estimated that their accuracy is in the range of 90 to 95 per cent depending on the tester.

There is a sliding scale, too, of occupations that are good at detecting lies. Professional sceptics include members of the intelligence services such as MI5 or the FBI, police officers, journalists, and those investigating insurance or benefits claims. All are routinely lied to. This provides an opportunity to study liars in their natural habitat.

**Liars at large**

In one recent study we looked at three occupations where people are lying and being lied to all the time: debt collectors, people working in sales, and telemarketers.

We studied a small debt collection firm (less than ten staff); a telemarketing firm with 35 to 40 staff generating sales leads; and finally, sellers of the *Big Issue* magazine. The results were fascinating, especially how far people will go to save face socially, even when both sides know it is a lie.

In all, we looked at over 500 separate interactions that were rich in lies. In any one interaction, there might be 20 to 25 separate lies.

For example, if you look at what people say to *Big Issue* sellers on the street, they say things like, 'Sorry, I've got no change on me', or 'I've already bought it', or 'I'll buy it later.' In that situation, for the most part, people are lying to the vendors rather than the other way around.

Telemarketers, on the other hand, are typically lying to the people they're calling to try to arrange meetings. So a regular trick is the telemarketer

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*One of the things lying hinges upon is what one person can assume the other one knows, or should know about some state of an assertion, or the object of an assertion*



Above:  
TV Detective Columbo

looking at the empty order books of the sales staff but lying about how full they are in order to create the impression of more demand to force the client's hand.

So they might say, 'March is filling up now and we're already booking into the early summer'. Or 'you might miss this discount unless you book early'. And on the other side, of course, the clients lie about their availability. Both sides invoke diaries to support their position.

You might expect to find in those sorts of settings that people are good liars: that is, they lie about things the other person can't know to be false, and they do so in a way that doesn't arouse suspicion. But in fact people frequently get themselves into traps. And what they do to get out of the traps is very revealing.

**Springing the traps**

When they are avoiding buying the *Big Issue*, for example, one of the traps people fall into is giving an excuse. So, instead of saying 'no thank you, I don't want to buy the *Big Issue*,' they say 'I don't have any change.' That's a trap because you're not saying you have no money and you can easily get caught out.

So what happens next is that the *Big Issue* seller might say I've got plenty of change. So now the trap is sprung. What makes it worse is that the liar may actually have change in his or her pocket but can't produce it now without revealing the lie. Nor can he or she produce a £10 note because it will be obvious that they have change jingling in their pocket. So even though both sides know that a lie has been told they may go to great lengths to keep up appearances.

So, one of the things you find about lying, is that it hinges upon what one person can assume the other one knows, or should know about some state of an assertion, or the object of an assertion.

So, in the case of the woman telling the *Big Issue* vendor she has no change she has to maintain the pretence or she will lose face. Unless she makes out that she didn't know she had change all along, she's a liar. And on cue she "discovers" it in her purse. And it's that token discovery that preserves the authenticity of the initial claim.

What we find in these sorts of situations is that lying isn't so much a choice individuals make as a form of social interaction. So, when they are caught out, they have to pretend to discover the change – even though both parties know really that it was just an excuse.

So it is the state of knowledge that determines whether someone is seen to be a liar or not. And in all of the examples, it comes down to what one can reasonably expect another person to know, and or discover, remember, or forget. Whether the lie is socially acceptable hinges on the credibility of the explanation.

**Reasonable and unreasonable lies**

That also means there are limitations on the lies you can get away with. You can't discover that you're riding a horse, for instance. You can't get away with saying 'Good lord, I seem to be riding a horse.' Unlike finding some change you didn't realise you had, the moment of 'discovery' with the horse is too far-fetched.

So, in the debt collection data, and staying with the theme of horses, we looked at one example where a woman claimed to have absolutely no knowledge of her purchase of a saddle, and she was in a prolonged conflict with the seller of the saddle, which cost £1,000 that she's not paid. And the debt collector is trying to research this.

The woman can deny all knowledge of the purchase, but the debt collectors are astute. Like the TV detective Columbo, they ask a lot of questions and wait for the person to fall into a trap, or give away a detail that undermines an earlier assertion. The debt collectors are effectively building a case so that inconsistencies and lies are revealed over time.

**Horses for courses**

People who work in these occupations also have their own ways of uncovering lies and their methods may involve deceit. They might use some sort of subterfuge – or lie – of their own to uncover the first lie. In the case of the woman who denied buying the saddle, for instance, it involved calling her and pretending to be someone else connected with equestrian pursuits in order to establish that she keeps horses.

So, even though they may not have a polygraph machine, or a brain scanner, or the training and competence of the CIA, people can, and do, recognise lying all the time as a matter of routine social competence.

A debt collector may have a more finely honed ability to detect untruths but we all have it to a great or lesser extent. We can start to see through the

## RESEARCH

*The truth about lies by Nick Llewellyn*

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*Even though we are aware that people lie, our default setting is to believe them unless we have reason to doubt them. Think about it: if every time somebody said something to you, you doubted it, life would become laborious and strange*

cracks and look at what's happening backstage, and get a glimpse that all isn't as it should be and there's some sort of con, scam, or fabrication going on.

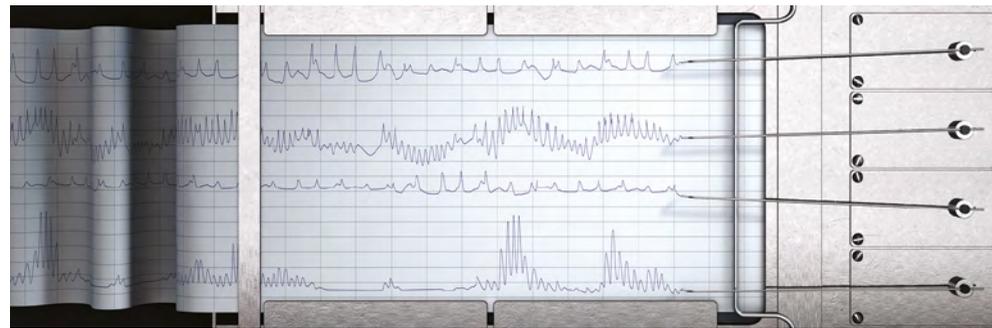
And we can do this not from 'tells', but because a claim in speech is revealed as untrue – for example, in the case of the *Big Issue* when the person claiming they have no change opens their purse, or the woman with the saddle reveals that she has horses, which she'd previously denied.

**The lies people tell**

Sometimes, too, it may be a blatant lie. The telemarketer, for example, gives a long lead-time for a meeting. They don't have a date until this time. But then the customer they're speaking to is going to be away for six weeks so they can't have a meeting. And then the telemarketer backtracks – and a window mysteriously opens in their diary, which is much earlier than the earliest date they'd given before.

The customer knows they are being lied to but just laughs. 'You just said the 24th was the earliest you could do.' But even then the telemarketer preserves the appearance of truthfulness by telling another lie – saying that another meeting on that date has just been cancelled but the cancellation was written in small letters so they couldn't see it.

So, even though it is blatant the customer accepts that the lie is a harmless piece of sales shenanigans. What is interesting is that even then the telemarketer still covers her tracks, so the lying remains subterranean.



That was the case in all 500 episodes, which included thousands of lies. Not once in the whole time did anybody confess, or admit they'd been completely caught out.

**Covering our tracks**

People will go to amazing lengths to cover their tracks when they are called out for lying, even for lies of very little consequence. Sometimes they make up elaborate and unbelievable scenarios just to save face socially.

This is because they won't let themselves be seen as having been dishonest. They are happy to lie, but very unhappy to be seen publically as being dishonest and will go to great lengths to avoid the stigma.

So, if you're selling the *Big Issue* on the street, you've got to know how to get money from people – without making them look like liars. That means dealing with potential deceptions. So for common excuses – no change, I've bought it already, I'll buy it later – it helps to have a stock riposte.

We studied one vendor who was very good at this. He had a non-threatening answer to all the common excuses. So, I'll buy it later – 'how much later, darling?' I've already bought it – 'but it comes out on a Saturday so you've got the last edition and this is the new edition'. No change – 'I've got change'.

In those instances, where it seems that people might be on the cusp of a deceit, he always had a vested interest in not revealing a lie.

**The social life of lies**

There's an important social aspect to this. People are proficient liars, so even if they find themselves in a trap they manage to cover their tracks. They are good at invoking details that suggest they didn't know, have just discovered, or had forgotten some important aspect relating to their previous assertions.

And, on the other side, people are accepting of this because the social cost of accusing another person of being untruthful is too high. In short, it's less offensive to be lied to than it is to call someone a liar. This fits in with the sociological and anthropological literatures, which talk about norms against deceit.

It turns out that lying is one of the main regulating principles of society.

Even though we are aware that people lie, our default setting is to believe them unless we have reason to doubt them. Think about it: if every time somebody said something to you, you doubted it, life would become laborious and strange.

That doesn't stop people lying, but it does impose a series of constraints upon calling people out for lying. It protects the dishonest, rather than hindering them. It's an aid to dishonesty.

**Selling in a post-truth world?**

So how does all of this fit with the so-called post-truth era? It is tempting to think that post-truth is a feature of everyday life. But that's not what the research indicates. Even though people lie all the time it's not the same thing as post-truth.

In many situations lying is part of the social fabric that binds us together – and there's even a strange sense of morality that comes out of it, too.

So the debt collector pretends to be someone else on the phone in order to expose the lies of the debtor, but they see that as a moral position, even though it's a curious kind of morality. Similarly, the telemarketer does not feel there's anything wrong

when they say the diary date is suddenly available. At no point do they think that they actually manipulate for a living.

In fact, there's no sense of post-truth in the data at all. Instead, there's an old fashioned sense in which people want to appear truthful, and will work hard to seem that way.

So, the good news is that the world of sales isn't post-truth yet. Lying is simply a necessary social lubricant. We need it as a way to navigate through social awkwardness – for example, when we say a gift is just what we wanted even though our body language says otherwise.

**The new lie of the land**

So, it's a case of looking at how people in various forms of work adjudicate themselves and deal with the moral consequences that immediately follow – and how they deal with the fallout from that.

Those are the occasions where liars are morally accountable – in the moments immediately after the lie. One of the interesting things with Donald Trump and others has been how in a post-truth world, nobody's expecting anybody to tell the truth, and so you just don't care anymore.

But we didn't find that at all. What we found in the data is that lying is a moral activity, and that people do work under the basic idea that others are expecting them to be truthful. And if somebody calls you out for lying, that's something you need to defend and reject.

And that speaks more broadly about a deep ethical bond between people, as members of a society and what we owe others. We owe them the truth. And that's as close to profound as I get.

And that's the honest truth about lies.

**Nick Llewellyn** is Professor of Organisation and HRM at Warwick Business School.



C

# PE LESSONS

Thinking about a merger or acquisition? Look to the world of Private Equity for best practice. John Colley explains why.

Strategic acquisitions and mergers have a poor performance record. Most fail to deliver the value expected. Studies consistently show that 70 to 90 per cent of all mergers and acquisitions materially fail to reach expectations, while almost 60 per cent actually destroy value. Around 50 per cent of all acquisitions are sold within five years. The research is unequivocal but how and why is value so systematically destroyed?

There are plenty of high profile examples. AOL's \$164 billion purchase of Time Warner in 2000, for example, lost 93 per cent of its value in a year. Many commentators believe this to be the worst ever deal. Yet there are several others that compete very closely. Under the leadership of Fred Goodwin, Royal Bank of Scotland (RBS) paid €71 billion in 2007 for ABN Amro, which turned out to be full of subprime mortgage bonds. Subsequently RBS had to be taken into public ownership to prevent failure.

Contrast this with the acquisitions track record of the Private Equity (PE) industry, which consistently outperforms the S&P 500 by a significant margin. PE buys businesses with the express intention of selling at a future profit.

The modus operandi of PE is to raise funds from institutions and high net worth individuals. These can then be used to buy businesses. They are subsequently sold on when they show a significant gain in value. Funds are intended to run for ten years during which businesses are bought and sold. The proceeds are returned to investors; and PE partners normally take around 20 per cent of the fund profits. This direct and substantial financial interest of the partners contrasts with most major companies engaged in acquisitions, where directors have limited and remote interest. The outcome of failing acquisitions is often only apparent to shareholders some years later, which weakens accountability.

In view of this major divergence in performance it should be asked what can strategic business buyers learn from PE? After working with both strategic buyers in multinational businesses and PE over many years, I believe five major lessons can be learned from the approach of PE:

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*The modus operandi of PE is to raise funds from institutions and high net worth individuals. These can then be used to buy businesses. They are subsequently sold on when they show a significant gain in value. Funds are intended to run ten years during which businesses are bought and sold*

## Lesson 1. Timing

In business timing is often the critical factor determining success or failure. This is much the same with acquisitions. PE will review many opportunities, but will only invest where they can see an opportunity to add value over the next five years. In this way they can achieve an exit with clear options in terms of likely buyers or a float on a stock market. Value can be created from a combination of rising markets, cost reduction, financial engineering, or simply buying at an under value. Major corporations often dump businesses for whatever they can, which have become non-core or are underperforming. This is a particularly fertile area for PE as management may have clear ideas for a business turnaround.

Contrast this with the strategic buyer. Major companies will have a strategic plan outlining a list of potential targets – normally related businesses in terms of either technology, markets or products. The list is usually limited and when potential targets become available there is a pressure to buy even if only to prevent direct competitors from acquiring and benefitting. Owners of potential targets know who may be interested. They are careful to prepare the business for sale before marketing at the optimal time to maximise price.

In effect the seller determines the timing of the sale, whereas for PE they simply will not buy if they do not see significant opportunity for value creation. Strategic buyers should carefully consider timing and performance and if the outlook for the next few years is doubtful then do not proceed.

## STRATEGY

PE lessons by John Colley

## Lesson 2. Pricing

The strategic buyer is faced with limited acquisition opportunities, which fit with their strategy. For example a multinational wanting to enter a country where they do not have a presence often faces limited options, which rarely become available for sale. In short local businesses have developed first and need a very attractive price to sell out. A consequence is the corporate feels a pressure to acquire when an opportunity becomes available. Pressure from direct competitors who also have limited strategic options frequently results in escalating prices. These may go well beyond any future calculation of worth.

Major corporations often choose to buy other stock market listed businesses. However shareholders and directors of the target expect premiums of 20 to 40 per cent over the previous undisturbed price. If at the time the previous share price reflected a fair valuation of the target then the premium reflects the resultant future benefits from combining two businesses. Therefore all the advantage is lost to the targets' shareholders. In effect buying a business, which is listed tends to force a very high price. Not surprisingly, PE will very rarely buy stock market listed businesses, viewing prices as too high.

PE is highly objective and carefully models the price and future benefits of any acquisition. If the opportunity fails to deliver a hurdle return rate PE will simply move on to the next opportunity. They are disciplined on pricing, recognising that there will be no lack of future opportunities for evaluation. They may ultimately choose to proceed with as few as one in 10 opportunities. Strategic buyers must be more cautious about price and if it does not show clear and significant future returns then do not proceed.



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*Many would say the true core competence of PE is their ability to negotiate a good deal. They are experienced and tough in negotiation and know where value is to be captured in a deal. They also know how to place risk elsewhere*



LEFT: © FLICKR: PAUL &amp; ALINE BURLAND

## Lesson 3. Integration

Research suggests that trade buyers frequently overpay for acquisitions and that significant value is lost in the subsequent process of integration. Integration can generate significant value if completed successfully. Combining businesses in similar trades can create enormous scale and scope economies and increase pricing power through market leadership. Take for example AB InBev, the world's largest brewer of beer with around 30 per cent global market share. They achieved this with a series of acquisitions not only increasing market power dramatically but creating savings of between 14 and 21 per cent of acquisition sales value.

However, the period integrating a business can be protracted due to the sheer complexity of larger businesses. During this period of uncertainty the acquired business' key staff are often concerned for their future and choose to leave. The level of distraction generated by a major internal project often results in lost market share. Indeed competitors will target staff and customers immediately following an acquisition. During 2015 the discount chain Poundland bought 99p Stores. During the extended integration (due in part to a competition referral) both chains lost substantial market share. Poundland's share price collapsed and in 2016 they were acquired by the South African discount group Steinhoff International.

PE does not integrate businesses but offers advice and direction. They normally retain the management team and motivate them by offering them shares in the business. This can be as much as 40 per cent of the business. Hence stability is maintained with the management incentivised and motivated to generate value and continue running the business successfully.

Strategic buyers should have clear plans regarding the integration approach and speed is essential. If a complete integration is not necessary to produce planned benefits then consider retaining the management team and appropriately incentivising.

## STRATEGY

PE lessons by John Colley

**Lesson 4. Cash and Financial Engineering**

PE funds are highly adept at minimising their investment, which helps maximise investment returns. This is achieved through tight cash management by making suppliers wait for payment, minimising stocks and carefully managing customer credit. They also borrow against the assets so for example selling and leasing back the property, borrowing against customer credit, and against future profits. Debt interest is tax deductible in many western companies. This also exposes other parties (banks, suppliers) to any downside in the business whilst minimising the amount required from the PE fund and maximising returns.

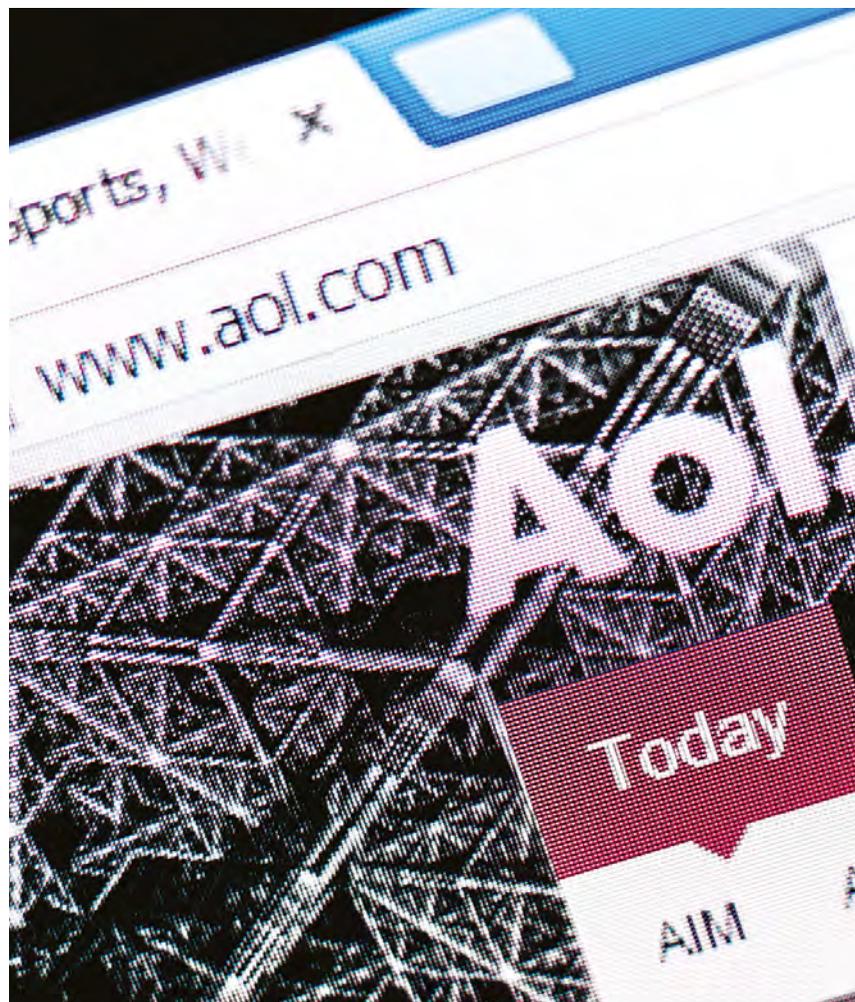
In contrast major multinationals are often poor at managing cash. Many only optimise cash when they are on the verge of running out. Internally there is usually no charge for using cash and consequently management do not focus on minimising it. In a recent management buyout from a European multinational some colleagues paid £26 million for a business. Of this they only had to find around £3 million after borrowing against the land, buildings, debtors and extending the creditors. The £3 million was lent by PE in return for 40 per cent of the business and repaid in one year. In effect the net investment of management was negligible whilst PE risked only £3 million on a £26 million purchase.

Strategic business buyers can learn much from PE in terms of effective cash management, both operational cash flows and borrowing against existing assets.

**Lesson 5. Negotiation and Risk**

Many would say the true core competence of PE is their ability to negotiate a good deal. They are experienced and tough in negotiation and know where value is to be captured in a deal. They also know how to place risk elsewhere. Their objective is to maximise the upside opportunity to benefit from profits whilst spreading downside risk of failure with as many other parties as possible. PE require extensive due diligence (investigation) of financial, legal, commercial and management which is undertaken by specialist consultants. The due diligence findings and any concerns raised will require guarantees from the seller and management, and/or price concessions. Insurance will be required against other risks such as management illness or bad debts. They will borrow extensively from banks and suppliers so if the business failed then PE's losses would be limited whilst others would have to foot most of the bill. Conversely if the business does well then PE takes the majority of the gains. When selling PE will not grant warranties or indemnities to the buyer which avoids exposure to future risk once profits are banked. Instead they will usually expect management to cover such risks.

In contrast trade buyers are often occasional negotiators who may well have other jobs in the business. Negotiating to buy a business is a highly complex matter and there are many areas in which value can be lost or gained outside the headline price. Trade buyers are generally less demanding of warranties, leave less risk with the seller, and rarely require additional insurance. They may be tasked with buying a business irrespectively. Specialist advisors are normally involved but some will be paid only on deal success. A consequence is they are incentivised to achieve a deal and may not offer entirely objective advice on extracting value during a negotiation. In the recent \$106 billion brewing acquisition of SAB Miller by AB InBev the advisors were paid \$1.5 billion of which most was success based.



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*Buying businesses that are stock market listed will virtually always result in an excessive price. Unless merger benefits are very high then take a lesson from PE and do not do it. If the price in a negotiation is going beyond the hurdle rate of return then walk away*

## LESSONS TO ACQUIRE

**Trade business buyers can learn much from PE in approaching an acquisition**

One observation is that PE take 20 per cent of fund profits which means when buying and selling it is their own money they are investing. Contrast this with the trade buyer who is spending other shareholder money, not their own. The difference in approach is striking.

Sellers often offer businesses for sale only when the value is at a peak, thus maximising the price. Timing is critically important in successful acquisitions, if the timing is not right then it is advisable not to proceed.

Buying businesses that are stock market listed will virtually always result in an excessive price. Unless merger benefits are very high then take a lesson from PE and do not do it. If the price in a negotiation is going beyond the hurdle rate of return then walk away.

Integration is a major opportunity to destroy value. It should be carefully planned with clear objectives and the integration team involved at an early stage. The negotiation should include investigation to ensure the benefits are valid and achievable. Speed is usually critical.

Many businesses are poor at cash management and fail to minimise shareholder investment. Shareholder funds are usually the most expensive to raise and returns can be maximised through the efficient use of cash.

PE has great negotiators, which is their main core competence. They are highly practiced and tough. Major businesses are often occasional negotiators or employ advisors who are incentivised to do the deal. Either way in comparison they are unlikely to be as effective at capturing value.

PE often talks about 'skin in the game', which means personal investment and commitment. Perhaps that could be a lesson for strategic acquirers and 'treating the investment the same way as your own money'.

**John Colley** is Professor of Practice in Strategy and Leadership and Associate Dean at Warwick Business School



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# IFS & GUTS



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*How can you figure out how entrepreneurs actually think? Of course, if you ask entrepreneurs, especially experienced ones, they tend to say that it was gut feeling, that there was something in the idea which was worth pursuing*

New research by Deniz Ucbasaran sheds light on the roles of experience, intuition and analysis in entrepreneurship.

How do entrepreneurs identify business opportunities? How do they weed out the fantastic from the likely-to-fail? For entrepreneurs or anyone with an interest in the creation of new businesses these are perennially intriguing issues.

My own interest led me to look at the effects of entrepreneurial experience on the entrepreneurial process – and in particular on the early stages when good ideas are filtered out from bad ideas, products with potential from those which are merely possible and commercially questionable. What I found, supported by the growing volume of academic literature on entrepreneurship, is that experience helps. More experience leads entrepreneurs to identify more opportunities, and often, they are more innovative opportunities. A greater volume of entrepreneurial opportunities provides a wider set to select from. As a result, experienced entrepreneurs are effectively able to look before they leap.

But how do you explain this? Research tends to suggest two explanations. First, experience provides greater knowledge and awareness of the ingredients for entrepreneurial success.

Familiar and repeated patterns trigger entrepreneurial responses. The second strand of research suggests that it's something about cognition, the way these individuals process information that allows them to identify opportunities. Entrepreneurs think differently.

This begs the question of how you actually measure and operationalise cognition. How can you figure out how entrepreneurs actually think? Of course, if you ask entrepreneurs, especially experienced ones, they tend to say that it was gut feeling, that there was something in the idea which was worth pursuing. Entrepreneurs often enjoy adding to the mystery of their calling.

This is commonly heard but doesn't actually shed a great deal of light on the realities of the entrepreneurial process. Intuition that underpins that gut feeling might only be one of the cognitive processes involved. And often such tales of entrepreneurs following their hunches are anecdotal.

## RESEARCH

*Ifs and guts by Deniz Ucbasaran*

When researchers have attempted to measure intuition, they have often ended up focusing on a dispositional preference for intuition rather than looking at the actual use of intuition in a particular situation.

Also, increasingly developments in cognitive psychology suggest that our analytical and intuitive systems of thinking are actually interdependent rather than mutually exclusive. You can be intuitive and analytical.

**The research**

To understand this better we asked 74 entrepreneurs from the IT industry of varying levels of experience, to sit down with us and engage in an opportunity identification task. We asked them to imagine they were in this scenario: You've just come to a trade fair and you've been introduced to this

particular technology. And we gave them different technologies, with varying degrees of uncertainty. Some were relatively familiar technologies, such as phone payment systems. Others were more unfamiliar.

The entrepreneurs were then asked to think aloud constantly so that we could capture their thoughts using what is known as a verbal protocol analysis. Faced with the technology we put before them, they might say that's interesting, I can see there might be something in that, I think you could really use that for X, Y, and Z, and so on. The logic was that capturing the entrepreneurs simply thinking aloud without us priming them in any way would help circumvent some of the problems of previous work.

The end result was a huge amount of data of the entrepreneurs talking aloud. Then we coded the

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*One set of features we looked at to tell if the entrepreneurs were relying on intuition or analysis was variations in their tone and the words they were using that reflected an emotional response*

data to see if we could detect whether their decisions, or the way they were talking about the opportunities, was representative of intuition or analysis.

Research suggests that there's an emotional element to intuitive decisions.

So one set of features we looked at to tell if the entrepreneurs were relying on intuition or analysis was variations in their tone and the words they were using that reflected an emotional response. To provide another benchmark we invited two groups of experts: the first group verified the accuracy with which we had categorised entrepreneurs' thoughts as being intuition or analysis based and the second group included industry experts to rate the innovativeness of the ideas.

What we found is that, in essence, experience allows people to become more intuitive. And the more intuitive they are, the more able they are to identify not only more opportunities, but also more innovative opportunities.

**The experience factor**

Also interesting, even though we weren't looking for this, was the role of different indicators of experience. By this, I mean domain experience, experience related to the number of businesses that these entrepreneurs have founded and also experience within the IT industry. We controlled for whether they had founded businesses in other sectors, looked at the years of business ownership as well as their general work experience. Those who had more business ownership experience, those who'd owned businesses in other sectors, were able to identify more innovative opportunities.

**SMALL DATA**

The stats behind the global entrepreneurial frenzy.

#1  
11.62

Using new business entry density – the number of newly registered corporations per 1,000 working age people (age 15–64) as a measure of entrepreneurial activity, the UK at 11.62, ranks well above Germany at 1.92 and emerging economic power India at 0.12. A knowledge of offshore financial services is useful for data interpretation purposes. New business entry density is highest in the Virgin Islands (2604.76).

#2  
A half

For all its recent tech unicorns entrepreneurialism in America is in long term decline – with current start-up activity about half that of the previous generation. China, on the other hand, is undergoing unprecedented growth in non-state owned enterprise, spurred by the government's call for “mass entrepreneurship and innovation”.

#3  
1,300 years

Not all small businesses become large firms. Some make it to IPO, but most do not. Over the years the majority of SMEs get bought, go bust, or simply stop trading. A few, however, go on, and on, and on. Businesses like Nishiyama Onsen Keiunkan the oldest hotel in the world, founded in 705CE in the Yamanashi Prefecture, Japan, and run by descendants of the founder's family for the last 1,300 years or so.

#4  
365–445 million

The number of informal micro, small and medium enterprises (MSMEs) is an issue for global economies. In emerging economies, for example, of some 365–445 million MSMEs in total, 285–345 million are informal enterprises. Just 25–30 million are formal SMEs, with 55–70 million formal micro enterprises.

#5  
70%

Despite widespread entrepreneurialism, emerging market economic growth is likely to be restricted by limited access to finance. Four out of five new jobs in the formal employment market in emerging economies are in SMEs. However, some 70 per cent of emerging market MSMEs lack access to credit, having to rely on personal or internal funds to launch, run and grow the business.

RESEARCH

*Ifs and guts by Deniz Ucbasaran*

Experience really does help entrepreneurs. But also that varied experience seems to be valuable, especially if you want to identify more innovative opportunities.

Where does this leave fledgling entrepreneurs? You have to keep gaining experience, but to also trust your gut feeling over time. Because often, if you're in a more scientific environment, it can be discounted. But even though we can't explain why we're being intuitive, you can be comforted by the fact that often, it is based on experience.

So you can walk into a room and you might think, "there's something about this person I don't like but I can't quite put my finger on it". Actually, that's probably based on meeting thousands and thousands of other people. Over time you have developed some mental shortcuts.

Some thinkers and researchers (including Daniel Kahneman, author of *Thinking Fast and Slow*) are sceptical of the role of intuition and the importance often attributed to it. There is also a strong evidence-based decision-making movement.

It is also worth noting that a lot of entrepreneurial mythology surrounds youthful entrepreneurs. Many high tech pioneers from Silicon Valley, such as Mark Zuckerberg, started out when they were very young, when their experience was pretty well non-existent.

My research looked at the very early stages of the entrepreneurial process, and didn't look at how they go on and exploit some of these opportunities. It doesn't necessarily mean that young people can't identify opportunities, but experience gives you the upper hand. Young people might also be able to



draw on other people's experience to help them generate and refine their ideas.

The role of analysis is interesting here. We didn't find analysis to have any effect in terms of identifying opportunities. It may be that the analysis component comes in when you start to make the business case. For experienced entrepreneurs this might mean using analysis – perhaps market research – to hone down a long list of opportunities to a much shorter one. It could be that you maybe start off with intuition, and then you switch to analysis. The sequencing of this is what our research will look at next.



**#6**  
29.7

Analysis of 70 of Europe's leading technology entrepreneurs by executive search firm DHR International revealed that the average age of founders when their companies were established was 29.7 years old (slightly younger than the Silicon Valley average age of 31). Only 14 per cent had held a senior position at a major corporation, 43 per cent were serial entrepreneurs, 80 per cent had a university degree or diploma, including an MBA.



**#7**  
124%

Globally, start-up entrepreneurs are more likely to be male than female. The ratio of female to male early-stage entrepreneurs (aged 18-64) reveals that some countries, such as Indonesia (124 per cent), appear far more accommodating to female entrepreneurs than others, such as Jordan (26 per cent). While the US (71 per cent) seems more female entrepreneur friendly than the UK (47 per cent).



**#8**  
\$25bn

Only a fraction of private entrepreneur founded start-ups make it to the stock exchanges, but those that do, especially the technology Initial Public Offerings of recent years, often have eye-watering valuations. As of early 2017, the \$25 billion listing of Chinese start-up Alibaba, holds the IPO record, closely followed by the \$17.9 billion Visa IPO, and then Facebook's listing, which raised some \$16 billion.



**#9**  
\$86bn

Although many start-up founders initially take a minimal salary, in the long term, for some lucky, hard working entrepreneurs, the financial rewards can be immense. Microsoft co-founder Bill Gates tops the entrepreneur rich list with a fortune of some \$86 billion. Of the 59 dollar billionaires aged 40 or under, 26 are self-made entrepreneurs, most being American based, making their money through tech related start-ups.



**#10**  
Something-teen

The internet and tech revolution has produced a wave of entrepreneurs in their 20s. But a recent trend, it seems, is for even younger entrepreneurs. Forget the slacker generation; these are the teenpreneurs, such as Spain's Javier Agüera who co-founded Geeksphone aged 16. They need to be vigilant though or the kidpreneurs will soon be eating their (school) lunch.

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*Where does this leave fledgling entrepreneurs? You have to keep gaining experience, but to also trust your gut feeling over time. Because often, if you're in a more scientific environment, it can be discounted*

Deniz Ucbasaran is Professor of Entrepreneurship at Warwick Business School



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# THE ENTREPRENEURIAL TENDENCY

Can entrepreneurial ability be linked to biology? Nicos Nicolaou's research sheds fascinating light on whether entrepreneurs are born or made.

"Begin at the beginning, and go on till you come to the end: then stop," advises the King in *Alice in Wonderland*. The trouble with entrepreneurship and the study of entrepreneurship is that the beginning is often clouded in confusion or simply overlooked as practitioners and theorists are seduced by entrepreneurial tales of derring do.

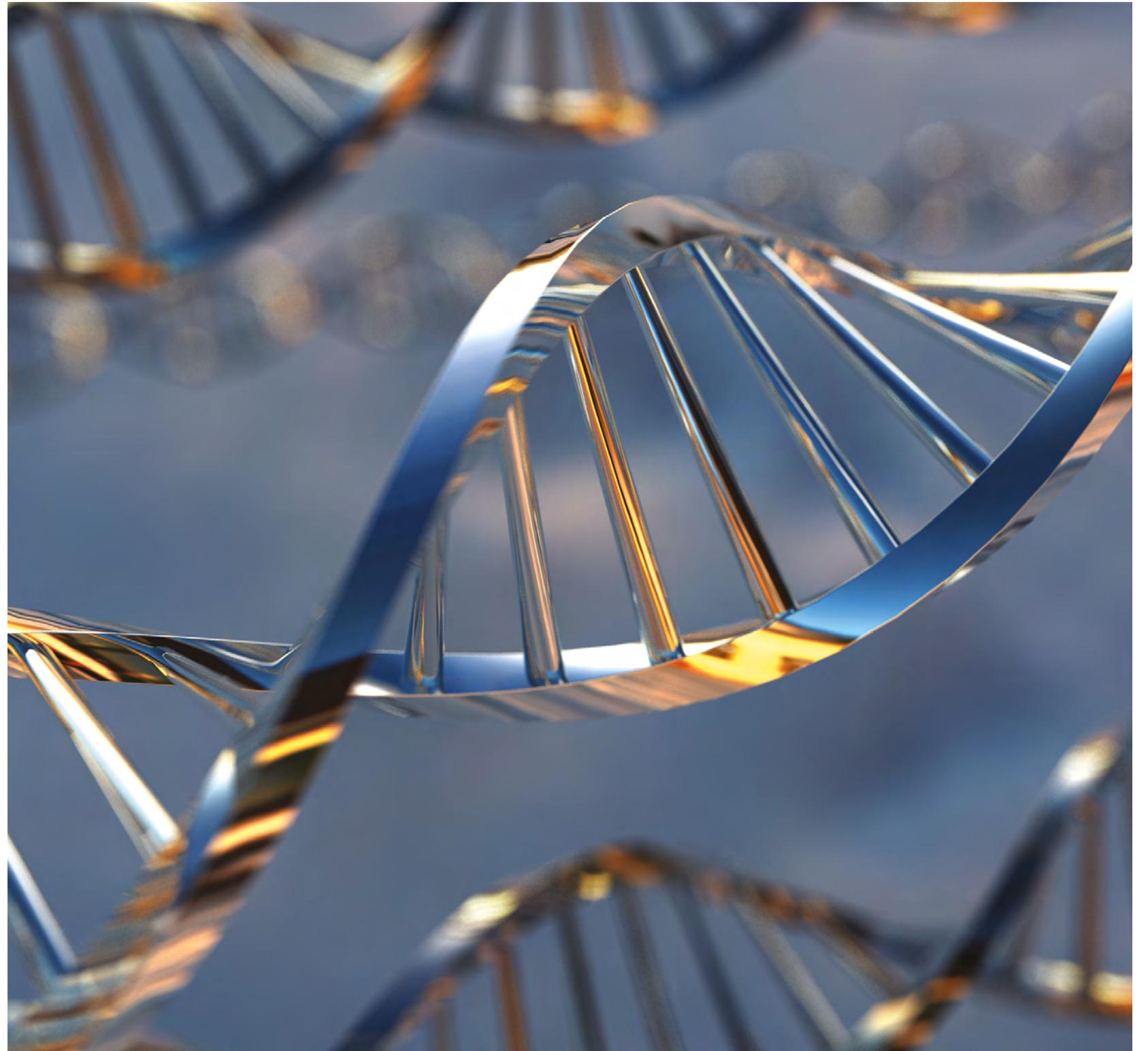
To start at the beginning, how best to define an entrepreneur? For me an entrepreneur is an individual who recognises and exploits an entrepreneurial opportunity. Now that definition, embracing both opportunity recognition and opportunity exploitation, also includes corporate entrepreneurship. Entrepreneurship is not just about people starting businesses. It is much more than that. It is about people in organisations thinking entrepreneurially, thinking creatively, engaging in strategic renewal, and in corporate venturing. It's recognising and exploiting entrepreneurial opportunities more broadly, and a large part of that actually does occur within organisations.

Over the past 50 years academics have tried to understand the factors that influence the tendency of people to become entrepreneurs. Along the way researchers have identified a wide spectrum of factors that influence that tendency, ranging from the economic environment to socio-cultural factors to personality. But one important factor has been almost completely ignored, the role of genetics and the role of biology. Is there a genetic predisposition to entrepreneurship? What is the role of biology? How does biology interact with the environment to increase the likelihood that some people and not others become entrepreneurs?

Intrigued, a few years ago, some colleagues and I started working on this project and the first question we asked ourselves was the classic one which MBA students always ask: are entrepreneurs born or are they made? And it's actually not an easy question to answer. The way that we went about answering that question is by surveying 3,500 sets of twins.

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*Entrepreneurship is not just about people starting businesses. It is much more than that. It is about people in organisations thinking entrepreneurially, thinking creatively, engaging in strategic renewal, and in corporate venturing*



## RESEARCH

*The entrepreneurial tendency by Nicos Nicolaou***Two by two**

Twins are a fascinating experiment of nature. There are identical twins and non-identical twins, the former are called *monozygotic*, the latter are *dizygotic*. Identical twins share 100 per cent of their genes. Their DNA is exactly the same (which can create unusual situations in the worlds of criminology and fiction). Non-identical twins share an average 50 per cent of their genes.

Comparing the rates of entrepreneurship between the two types of twins provides insight into the proportion of variance in entrepreneurship that can be explained by genetic factors. If there are greater identical than non-identical twin concordances for entrepreneurship that's indicative of genetic factors influencing entrepreneurship. If genes don't matter there shouldn't be any differences between identical twins and non-identical twins for entrepreneurship.

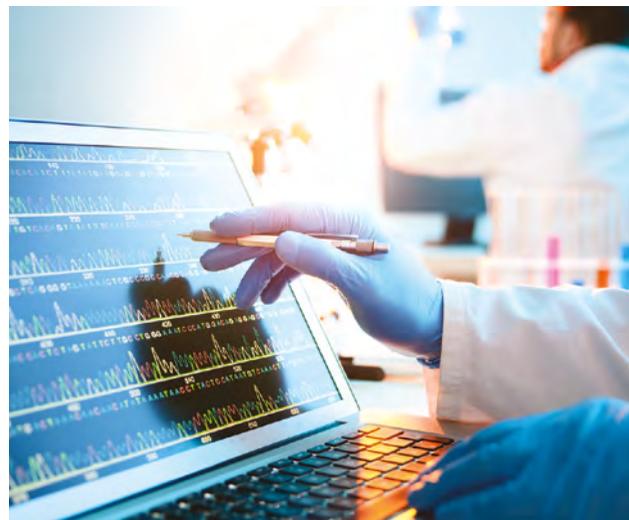
We found greater identical twin concordances for entrepreneurship than for non-identical twins. This amounted to around a 40 per cent genetic predisposition to entrepreneurship.

Now, this does not mean that people are born entrepreneurs. This is not about genetic determinism, this is about genetic probability, propensity, about genes influencing the probability. Some people may have a high likelihood of engaging in entrepreneurship because of their genes.

Crucially, that predisposition will not be manifested unless you are in the right environment. So, there is no gene for entrepreneurship. Instead, entrepreneurship is a very complex behaviour resulting from a very large number of genes, and a very large number of environmental factors, interacting with each other and increasing the likelihood that people become entrepreneurs.

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*Comparing the rates of entrepreneurship between the two types of twins provides insight into the proportion of variance in entrepreneurship that can be explained by genetic factors*

**Twins and beyond**

Some of my other genetics-related research looks at people coming up with ideas. Some people are brilliant at coming up with ideas and less good at exploiting those ideas. Others are really lousy at coming up with ideas but they're great at taking ideas forward. We've also looked at whether some people are more likely, because of their genes, to identify entrepreneurial opportunities. And again, we found the answer is yes.

Another project I am working on with some colleagues at Warwick and UCL involves brain scans to discover how entrepreneurs think. How is their brain wired? Is it wired differently?

Elsewhere, we've looked at the role of testosterone in entrepreneurship. There is existing research linking testosterone to risk-taking which is obviously an attribute of entrepreneurs. So, if testosterone is linked to risk-taking, and risk-taking is a characteristic of entrepreneurs, there is a probability that testosterone will also be linked to entrepreneurship.

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*So, if testosterone is linked to risk-taking, and risk-taking is a characteristic of entrepreneurs, there is a probability that testosterone will also be linked to entrepreneurship*

RESEARCH

The entrepreneurial tendency by Nicos Nicolaou

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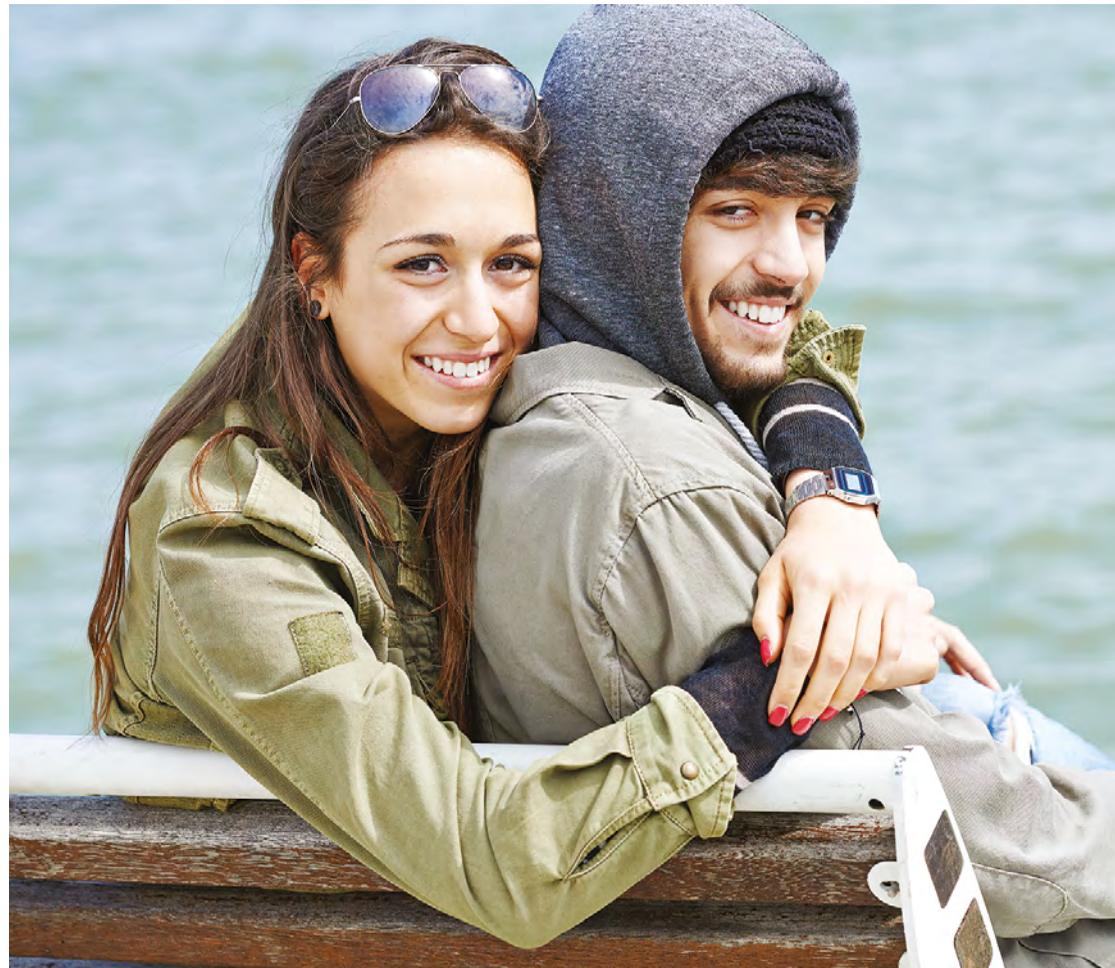
*If a female foetus is gestated with a male co-twin, she is masculinised more than if she is gestated with a female co-twin, because testosterone passes from one twin to the other both through the foetal membranes, and also through maternal circulation*

In one study we looked at pre-natal testosterone levels, whether they are associated with entrepreneurship later on in life, and we did find evidence of an association. We used something called the 2D/4D ratio which is the ratio of the length of your index finger to the length of your ring finger. The lower that ratio, the higher the influence of testosterone when you were a foetus. The beauty of that is there's a causal relationship because obviously, that is something which is determined years before anyone becomes an entrepreneur.

And in another study with testosterone, we again looked at twins. The hypothesis here is that if a female foetus is gestated with a male co-twin, she is masculinised more than if she is gestated with a female co-twin, because testosterone passes from one twin to the other both through the foetal membranes, and also through maternal circulation. In this study we compared non-identical opposite sex twins to non-identical same sex female twins, and identical female twins. We found that the opposite sex females were more likely to become entrepreneurs than same sex females, either identical or non-identical. Basically, females with high testosterone were more likely to be entrepreneurs than females with lower testosterone.

We're not saying that biology drives entrepreneurship, we're saying that it's an important part that has been largely ignored. Obviously, biology matters, and it's not just genes and testosterone, it's also health, physiology, blood pressure, heart rate, all these elements matter.

The reality is that whether you are talking about entrepreneurship, leadership, or creativity, you cannot identify a single factor. Everything involves a very large number of factors, in interaction. People are not leaders because they have a certain gene, people are not leaders because they've had a role model, people are not leaders because they've had a good education; it's a large number of those factors interacting together. So, for entrepreneurs, testosterone is one part of it, but it's a tiny part; on its own it does absolutely nothing, unless you have all the other elements.



ENTREPRENEURIAL NUGGETS

**Going it alone, together:**  
In Burkina Faso nearly two-thirds of working-age adults are starting up or running their own business.

**Positivity:**  
Africa has the most positive attitudes to entrepreneurship. 75 per cent of adults consider it a good career. Cameroonians are the least enthusiastic.

**Negativity:**  
Europe has the lowest belief in entrepreneurship as a good career – only 58 per cent. The Finns are the most sceptical about entrepreneurship; the Dutch the most positive.

**Women first:**  
In Indonesia, Mexico, Brazil and Malaysia women report equal or higher entrepreneurship rates than men.

**Small but big:**  
Small and medium-sized enterprises contribute 52 per cent to GDP in the UK.

**Source:** Global Entrepreneurship Monitor Global Report 2016-2017

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*We're not saying that biology drives entrepreneurship, we're saying that it's an important part that has been largely ignored*

Nicos Nicolaou is a Professor and the Head of the Entrepreneurship and Innovation group at Warwick Business School



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# THE MBA: PAST, PRESENT & FUTURE

The MBA is the pre-eminent business qualification of our times. Over the last half century Warwick Business School has been at the heart of its evolution in Europe.

The forerunners of the modern MBA were created at the start of the twentieth century by the newly established US business schools. Back then, the likes of Harvard Business School, the Wharton School at the University of Pennsylvania, and the Graduate School of Industrial Administration at Carnegie Mellon University were pioneers. The very idea of academic institutions dedicated to training young managers was a novelty. Many in the fusty world of academia raised their eyebrows at the very notion of management as an academic discipline. (Some still do, but hopefully they are now in the minority). The early courses the business schools taught became the basis of management as we know it today. The emphasis then was on finance.

The new schools, many of them inside famous universities, had a mission. They wanted to create a science of business, which would lay the foundations for a new profession. In short, they wanted to put management on the map. The MBA became the embodiment of that aspiration.

When it was founded in 1900, the Tuck School of Business at Dartmouth College, in New Hampshire, was the first graduate school of management in the world. (The first recognisable business school

was the Wharton School at the University of Pennsylvania, founded in 1881). In that same year it was founded, Tuck offered the first-ever graduate programme in management. Although not an MBA in name, Tuck awarded the first postgraduate business degree in 1902. (Originally it was a 'three two' programme, with three year's undergraduate study at Dartmouth followed by two years at Tuck.) It paved the way for the modern MBA.

For its centennial year, Tuck found itself in the happy position of selecting from 3,000 applicants to fill 191 MBA places. A lot's changed since those first students enrolled at Tuck, but the core subjects would have been familiar to those early management scholars. They would have learned accounting, marketing, managing people, and other basic disciplines. There were language courses and courses in international finance.

The subjects may seem similar, but the context has changed beyond all recognition. Its growing popularity and changes to the business environment have transformed the way business education is taught.

One school in particular has had a huge impact on the evolution of the MBA. Harvard Business School was founded in 1908, and awarded its first Master's degree in management in 1910. HBS blazed its own trail, starting with the development of the case study method, which was established in 1924, and was later exported around the globe.

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*The subjects of an MBA may seem similar, but the context has changed beyond all recognition – its growing popularity and changes to the business environment have transformed the way business education is taught*



## STRATEGY

*The MBA: Past, Present & Future by Steve Coomber*

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*Warwick, in particular, was always innovative in the design of its degrees. The first full-time MBA in 1968 was followed by an evening MBA in 1985, a distance learning MBA in 1986 and a modular study MBA in 1994*

Interest grew rapidly. But two damning reports by the Ford Foundation and the Carnegie Foundation left the neophyte business schools reeling.

'The Higher Education for Business' report, written by two economists commissioned by the Ford Foundation, Robert Aaron Gordon and James Edwin Howell, was published in 1959 and was the more influential. (The other report was called 'The Education of American Businessmen' and was penned by Frank Pierson on behalf of the Carnegie Foundation.)

Both reports were highly critical of the standards in the new business schools, arguing that the new degrees were being developed in haste, that the teaching was poor and the content lacking in academic substance.

The scathing criticism had a profound influence on

the US schools, giving them an inferiority complex and sending them on a fifty-year journey in search of academic credibility. The rest of the twentieth century was characterised by an attempt to bring academic rigour into both business school research and the classroom.

In the 1960s, the classic two-year American MBA model established itself in the US. The first year was devoted to the core disciplines and the second year offered more specialisation through a choice of electives. Originally, most students enrolled immediately after taking a first degree. Over time that has changed as more US schools insist on some work experience prior to taking an MBA.

The Harvard case study method started the move to more experiential learning through real projects with real clients, something that has been built on by other schools.

**The European way**

In Europe, however, a different sort of MBA model emerged. IMD, based at Lausanne in Switzerland, traces its origins back to 1946, and INSEAD, the international business school now based at Fontainebleau and started by a former member of the Harvard faculty, was founded in Paris in 1958.

In the UK, early management training schools included Henley, originally a civil service college, Ashridge and Cranfield, and in 1965, these were joined by London and Manchester Business Schools. That same year, several new universities were created including Warwick, Lancaster and Sussex. The School of Industrial and Business Studies (the forerunner of Warwick Business School) was established in 1967.

Masters courses were launched at Warwick in 1968, and the first undergraduate course in 1969. The celebrated academic and industrial relations expert, Hugh Clegg, was appointed founding professor of industrial relations in 1967. In 1970, the Industrial Relations Research Unit, which was to have a distinguished history and profound impact in the UK, was launched at Warwick.

But while the new schools at LBS and MBS copied the two-year American model, a distinctively practical European approach was also apparent. Schools like INSEAD and IMD eschewed the US model in favour of a one-year MBA programme aimed at students with some work experience under their belt.

Among the UK schools, Warwick, in particular, was always innovative in the design of its degrees. The first full-time MBA (initially called an MSc) in 1968 was followed by an evening MBA in 1985, a distance learning MBA in 1986 and a modular study MBA in 1994.

European schools placed much greater emphasis on work experience prior to entering their MBA

programmes. As a result, students at these schools tended to be slightly older, with a minimum of two or three years of management experience. The European schools also included a more practical focus, with many including in-company projects as an integral part of the MBA qualification. American schools, by contrast, were more concerned about participants' academic ability, placing great emphasis on high GMAT scores and often accepting applicants with little or no work experience.

The 1960s and 1970s were characterised by two different approaches. The American schools continued to pursue academic kudos, while the continental European schools concentrated on staying close to the real world of business.

By the end of the 1970s, the MBA had cemented its place, but its apotheosis came in the 1980s boom. Suddenly it seemed that recruiters couldn't get enough of the new business school graduates. The inevitable recession that followed in the early 1990s restored a semblance of reality. The 1990s also saw the arrival of Oxford and Cambridge in the business school market.

In the years that have followed the gap between the top American and European schools has begun to close. Schools such as Warwick have gained a reputation for the quality of their research, while US schools are trying to get closer to the corporate world.

**The modern MBA**

The financial crisis of 2008 and political changes, such as the restriction of visas to overseas students and more recently concerns over Brexit, have left their mark on the MBA market.

"Full-time MBAs are traditionally the domain of international students and frequently WBS has over 30 nationalities on the course," says John Colley. "Both the financial crash and ensuing global recession affected the market as has the

## STRATEGY

*The MBA: Past, Present & Future by Steve Coomber*

UK's approach to student visas. Curtailment of the two-year period when students could live and work in the UK following the course prevents them gaining work experience and hard currency to help pay for the degree."

In effect, UK opportunities have reduced and the cost of the degree increased. In turn this has also created a 'flight to quality' in which the top degrees are expanding their full-time places and middle order universities are struggling. This year, WBS has almost doubled its numbers and in 2018 plans to move to two cohorts. The strength of WBS's careers offering and quality of teaching are major attractions to students.

Executive MBAs that offer both quality and convenience are popular. WBS's high profile move to The Shard is a clear statement of intent, and one that is already paying dividends.

The Warwick Executive MBA has been successfully launched, combining the strength of the WBS brand with the attraction of London's most iconic building. Attracting around 90 students in two cohorts each year it is now adding a third cohort on Tuesday and Wednesday nights. The exceptional facilities allow for speakers, alumni events, conferences and the ability to host high profile events. WBS supplies degree and diploma programmes to the Bank of England, and is already considering expanding its footprint at The Shard as it is reaching capacity on some days and at certain times of year.



The move towards Executive MBAs is logical, says John Colley. "Businesses are now reluctant to allow MBA students significant time out of work. Many executives are charged out by the day so taking at least 60 days out to do an MBA is both inconvenient and expensive. A consequence is that WBS has changed the delivery to Fridays and Saturdays in London requiring a total of 24 weekdays and Wednesday to Saturdays in Warwick. Students also want the option to complete in two years rather than the traditional three years. Our Exec MBAs are now both being structured to complete in two years although students can take longer if they so wish."

Finally, notes Colley, many MBA students would like some degree of specialisation in their courses either through the sector they work in or personal interest. WBS offers variants, which allow a number of option modules and the major project to be focussed in healthcare, finance, entrepreneurship or strategic leadership.

**Masters of the online universe**

Over the last few years demand for online MBAs has also increased. Virtual learning suits modern lifestyles, requires little time out of work, and is generally cheaper than Executive or full-time MBAs. Many new entrant providers have joined the market and big name universities are considering or dabbling with online delivery.

The growth of Massive Open Online Courses (MOOCs) demonstrates the growing influence of online learning, with leading universities such as Harvard and Stanford now offering them. MOOCs are not the same as degree courses, but they illustrate the power of the virtual format.

However, when it comes to offering MBA courses with degree status entry barriers are higher than many realise. Reputation, experience, sophisticated systems and interactive content are critical ingredients of all online courses. Add to this extensive involvement of faculty in producing the material and teaching the modules and the complexity increases. Many schools either completely outsource their online MBA or have very limited faculty involvement.

WBS has major advantages in having offered distance learning and online delivery for over 30 years, which puts it among the longest of any UK university in the distance learning market. It has also occupied first or second positions in global rankings for almost as long as online rankings have existed. Unlike some of its rivals, WBS faculty produce the School's materials and teach the modules.

A new course, which includes core modules of leadership, and innovation and creativity, which can be completed in two years, is currently being launched. Face-to-face time is around 15 days at Warwick, and the new course offers high levels of interaction.

**The entrepreneurial MBA**

The new aspirations of both students and business schools are also reflected in the subjects of study offered. Once MBA courses trotted through the usual functional suspects – strategy, marketing, finance and the rest. But those one-dimensional days are long gone.

Instead, schools throughout the world are spending more time focusing on entrepreneurship, especially social enterprise. "The bulk of our students wish to change jobs either functionally or by industry or they want to move into general management. Whether it is business start-ups or progress in major organisations, students need entrepreneurship skills in terms of creativity, leadership and strategic capability besides a financial understanding. We have made entrepreneurship and creativity core for all our MBA programmes and further increased the leadership element," says WBS's John Colley.

In 2017 an entrepreneurship specialism is being added to the Warwick Full-time MBA programme. Students interested in setting up their own business or developing their entrepreneurial mindset within a large corporate or an owner managed business, will be equipped with the innovative skills to find creative solutions to day-to-day problems. The specialism will mean students focusing for half of their MBA on entrepreneurship guided by John Lyon, the Professor of Practice leading this specialism, who has held non-executive and chairman appointments spanning over 25 years as both a venture capitalist and personal investor.

The MBA has come a long way and appears set to change its way into the future.

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*Executive MBAs that offer both quality and convenience are popular. WBS's high profile move to The Shard is a clear statement of intent, and one that is already paying dividends*

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STRATEGY

BY GEORGINA PETERS

# A MATTER OF LIFE & DEATH

Graeme Currie's work is focused on healthcare services. But, the concept of moving from a reliable organisation to a proactively responsible organisation has wider application.

The death of Peter Connelly – known as Baby P – in 2007, highlighted the challenge of integrating social services in the UK to provide high quality care. In this tragic case, a young abused child fell between the organisational cracks. In the intervening years the findings of several enquiries including those following the Baby P scandal, and poor healthcare provision at Stafford Hospital, focused attention on improving accountability and responsibility.

However, a decade later, with numerous media stories pointing to serious problems in NHS mental health care provision, for example, it seems much remains to be done to ensure the effective delivery of services that extend across different departments, agencies, and organisations.

At Warwick Business School, Graeme Currie, Professor of Public Management, has been instrumental in creating a healthcare research network that investigates good practices in organising healthcare effectively. Building on the School's strong track record in healthcare, the network consists of a group of faculty with research interests varying from behavioural science through operations management, operations research, strategy, organisation and human resource management, entrepreneurship and innovation, information and systems management, yet with a substantive focus overall on healthcare.

A main aim of the network is to inform organisation and management at a strategic level in the NHS. One recent healthcare project, funded by the National Institute of Health Research, provides invaluable insights into how organisations can improve the delivery of services when multiple stakeholders are involved, helping them avoid tragic outcomes like the death of Peter Connelly.

## Beyond accountability

The project focused on leadership and knowledge mobilisation in safeguarding networks. Unfortunately, during the project fieldwork a teenage female patient with eating disorders died in the intensive care unit of an acute hospital, ostensibly from organ failure. The organisational response to that patient death highlighted the importance of distinguishing between what Professor Currie terms retrospective accountability and proactive responsibility.

"She'd had an eating disorder for six years," says Professor Currie. "She had experienced episodes of care delivered by the Mental Healthcare Trust, the Acute Healthcare Trust, by her GP, and by her school, for example. But these episodes had been discontinuous and so we might see this case as one where she fell through the cracks in the system. We've got discontinuous episodes of care across a number of agencies, everyone did what they should do, but she wasn't always visible in the system."

The response to patient safety failure in this case, says Professor Currie, shows how perceptions of, and attitudes towards, accountability and responsibility can shape the way organisations deal with problems. Although focused on a specific healthcare case, his observations also have relevance for a broad range of organisations operating in other sectors.

"Accountability is embedded within responsibility. So accountability is one dimension of responsibility, in essence the external dimension of responsibility, but it tends to be retrospective," says Professor Currie. "There's an internal dimension of responsibility, which in a professionalised context links to the professional ideal of a client focused interest, beyond any self-interested actions."

In healthcare – and in many other sectors – this concept of unselfishness and client focused interest, a "sentiment of care" for the end user of a service, could and should underpin and drive

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*With numerous media stories pointing to serious problems in NHS mental health care provision, for example, it seems much remains to be done to ensure the effective delivery of services that extend across different departments, agencies, and organisations*

## STRATEGY

*A matter of life & death by Georgina Peters*

actions and act as a catalyst for responsibility. However, as with many large complex organisations, the work pressures encountered in the NHS, the constant stream of tasks to be performed, and the focus on delivering results within a performance and target driven culture, means that problems often get temporarily patched rather than permanently solved. Then, when the patch fails and the problem becomes serious, there is retrospective accountability after failure.

Ideally, however, if a culture of “sentiment of care” prevails, then it is possible to shift from retrospective accountability post-failure to a more proactive notion of responsibility prior to failure. Hence the need to distinguish between the two and encourage the latter.

In the case of the teenage patient’s death the response was led by the chair of the Safeguarding Board, the person who was the most visibly accountable, despite being some management distance from frontline decision-making.

The typical institutional response is to hold an enquiry, and then attempt to implement and comply with requirements emerging from the enquiry. But in this case, in addition the chair steered a range of stakeholders towards an outcome that led to the creation of a highly rated eating disorder service able to guard against future potential failures.

A number of stages were involved in shifting responsibility for care successfully from the chair of the Safeguarding Board towards the frontline professionals.

“To start with the chair co-opted two key people – the medical directors of both the acute hospital and the mental healthcare provider. These were the other two people most likely to be held accountable for failure in similar cases. They were highly positioned doctors, able to connect with the most powerful professionals in the relevant healthcare ecosystem,” says Professor Currie.

The chair then co-opted the chief executives of the Acute and Mental Healthcare Trusts into the emerging collaboration for change. The CEOs were particularly important, as they were the gatekeepers to the resources required to enable change.

**Appealing to the emotions**

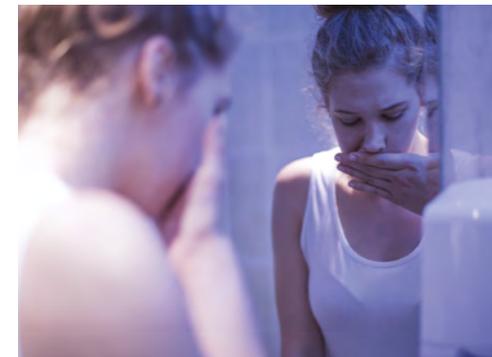
At the same time the chair tried to unleash a sentiment of care among the frontline professionals. There was a tendency with frontline workers to acknowledge service failure, yet be resigned about their ability to prevent that failure. “Under the pressure of work their sentiment of care was rendered latent,” says Professor Currie. “They’d do what they were meant to, and they’d be held accountable for that jurisdictional remit, but the overall sense of responsibility wasn’t there. There was accountability, but not responsibility for care.”

In order to get frontline staff to commit to the notion of selfless service and care the chair appealed to two emotions – shame and hope.

At a workforce conference the chair gave a speech to everyone present. The essence was how everyone shared a common purpose and responsibility – everyone wanted to protect the vulnerable children of the city but in this case had let them down.

“This was about trying to provoke change, through shame,” says Professor Currie. “With retrospective accountability you start pointing the finger at others, which leads to paralysis. Trying to move people from blame to shame can be part of the process that enables you to move from the paralysis towards change.”

But shame is not sufficient on its own. To focus solely on this one emotion would be counterproductive. What the chair also did was provide people with hope that something positive could be accomplished. This was achieved through a number of actions. The earlier co-opting of the medical directors and CEOs was integral for this



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*At a workforce conference the chair gave a speech to everyone present. The essence was how everyone shared a common purpose and responsibility – everyone wanted to protect the vulnerable children of the city but in this case had let them down*

step. The medical directors provided a buffer against other medical professionals who might otherwise have derailed efforts to provide an effective eating disorder service. Similarly the CEOs ensured that the necessary resources were made available.

An example of excellence, run by a third sector organisation, was used to show how it was possible to provide a model for an eating disorder service that mitigates any potential failures. The service had two main dimensions: it was based on early intervention and it was family orientated.

Another key aspect of the transformation process, in terms of engaging staff, and providing hope, was the introduction of what Professor Currie calls “tempered radicals”. These were people who were both willing to challenge the *status quo* and at the same time able to influence their peers and champion change.

A suitable tempered radical was identified on the basis that they could influence their peers to pursue a path of transformation. In particular, they were able to convince colleagues that developing the eating disorder service would not take money from other key services, such as child and adolescent mental health services.

“This person was co-opted in and then developed a business case with the frontline professionals, pulling down a year’s worth of funding for an external commissioner of the service, which was then extended to 18 months,” says Professor Currie. “After 18 months, they secured more funding, and this went on for a number of years, during which the two co-opted CEOs continued

## STRATEGY

*A matter of life & death by Georgina Peters*

to support the initiative financially. Also, another tempered radical, an eating disorder specialist, was brought in to continue developing the service.”

In 2015, sustained funding was obtained from the clinical commissioning group to continue the service indefinitely. A more permanent service had been established with the sentiment of care and proactive responsibility at its heart – and on the professional frontline, rather than retrospective accountability.

A business case and appropriate performance metrics had been developed, rather than being imposed, and the service crossed jurisdictional and agency boundaries. The cracks in care provision had, hopefully, been sealed.

**Proactively responsible**

The response to the tragic initial event was more successful than in similar situations of organisational failure. There are a number of significant learning points, both for healthcare providers and the management of patient safety in particular, and for organisations operating in other sectors. These include lessons concerning the successful mobilisation of stakeholders for a particular purpose about navigating change in a professional environment and empowering staff.

For example, the role of emotions is an aspect of stakeholder management that is not well studied. Yet in this case focusing on emotions such as shame, hope, and duty to care for clients, was fundamental to moving beyond blame and paralysis and creating a positive environment in which transformation was achievable.

Another example is the issue of control and controllability. Often, when failure happens in an organisation, people view that failure in the narrow context of the specific organisation or department they work in. When there is a failure in a service that relies on multiple agencies and professionals, individuals focus on their own organisation or isolate failure to a particular part of the overall service.

The reason for this is partly that many of the individual stakeholders that contribute to the successful provision of a service feel that aspects of that service are beyond their control. They feel therefore that they are not responsible for any failure beyond their personal remit. This is often the case in professional environments, for example, where professional activity is standardised, routinised (to make it easier for managers to manage), which leads to a perception of narrow scope.

By being more proactive, managers such as the chair of the Safeguarding Board in this case, can help engage professionals in the overall service provision by making them feel that they have greater control over the end-user experience. By protecting frontline professionals from obstacles that might be perceived as restricting their ability to exert influence and control over an outcome, a more proactive approach to responsibility for service provision is attainable. Free from restraint and interference, staff develop a “can-do attitude”.

“It takes a confident set of managers to do this, because in essence you are giving up control,” says Professor Currie.. “But you are doing so to ensure that control is maintained over the entire service.”

**Proactive research**

And while the project focused on healthcare services, the concept of moving from a reliable organisation to a proactively responsible organisation has wider application. There are many organisations, for example, that use high reliability, standardisation and routinisation to minimise failure. Yet, as Professor Currie notes, while that goes some way to preventing failure, organisations need to be able to cope with unexpected consequences in real time. That requires a degree of proactive responsibility across stakeholders that many organisations simply do not possess.

For Professor Currie, the healthcare work at WBS, and indeed the business school’s research in



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*While the project focused on healthcare services, the concept of moving from a reliable organisation to a proactively responsible organisation has wider application. There are many organisations, for example, that use high reliability, standardisation and routinisation to minimise failure*



general, should not be limited to observing and documenting. Rather, it should go further, discovering examples of good practice and helping distil and communicate best practice in a way that is useful for practitioners.

In that way the researchers, as well as providing a better understanding of the problem, become part of the solution.

“We always work in a situated way, with any participating empirical site,” he says. “We will ensure that having done our research, and it won’t be summative, we will provide feedback at key points in that research process. For example, in the eating disorder case I had a number of meetings with the managers and clinicians to provide feedback.”

It is another dimension of proactive responsibility. In this case that of a business school’s broader role in society – a role that Professor Currie believes in strongly.

“We shouldn’t just do research, fly in, fly out, publish a paper, and not disseminate it,” says Professor Currie, demonstrating his own “sentiment of care”. “My argument is we should create social value, communicate to a wider set of stakeholders, and help deal with the global challenges – whether it is an ageing population, global governance, global security, global migration, energy, food – or healthcare.”

**Graeme Currie**  
is Professor of Public  
Management at  
Warwick Business School



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# SUBSTANCE OVER STYLE

Research by Jimmy Donaghey and Juliane Reinecke examines the response to the Rana Plaza disaster and whether lessons have really been learnt.

On April 24 2013, Rana Plaza, a multi-storey commercial building located in the Savar district of Dhaka, Bangladesh, collapsed with the loss of at least 1,134 lives and thousands more injured. Despite the death toll it is very possible that the incident would have been quickly forgotten outside of Bangladesh were it not for the fact that many of the workers who died were employed by factories that made garments for globally famous retailers and brands. As a result, the building's collapse led to an international outcry about supply chain safety standards, and eventually to substantial cooperative measures designed to prevent similar incidents, safeguard the welfare of workers, and ensure responsible behaviour by supply chain stakeholders.

For Warwick Business School's Jimmy Donaghey, Professor of International HRM and Juliane Reinecke, Professor of Organisation Studies, the Rana Plaza tragedy was a unique opportunity to extend their studies on the efficacy of cross border governance measures. To date it is research that has encompassed four trips to Bangladesh, with a fifth planned, and over 80 interviews of key stakeholders. The results of their studies have been published in a series of papers offering important insights into the challenges of governing supplier behaviour in global supply chains.

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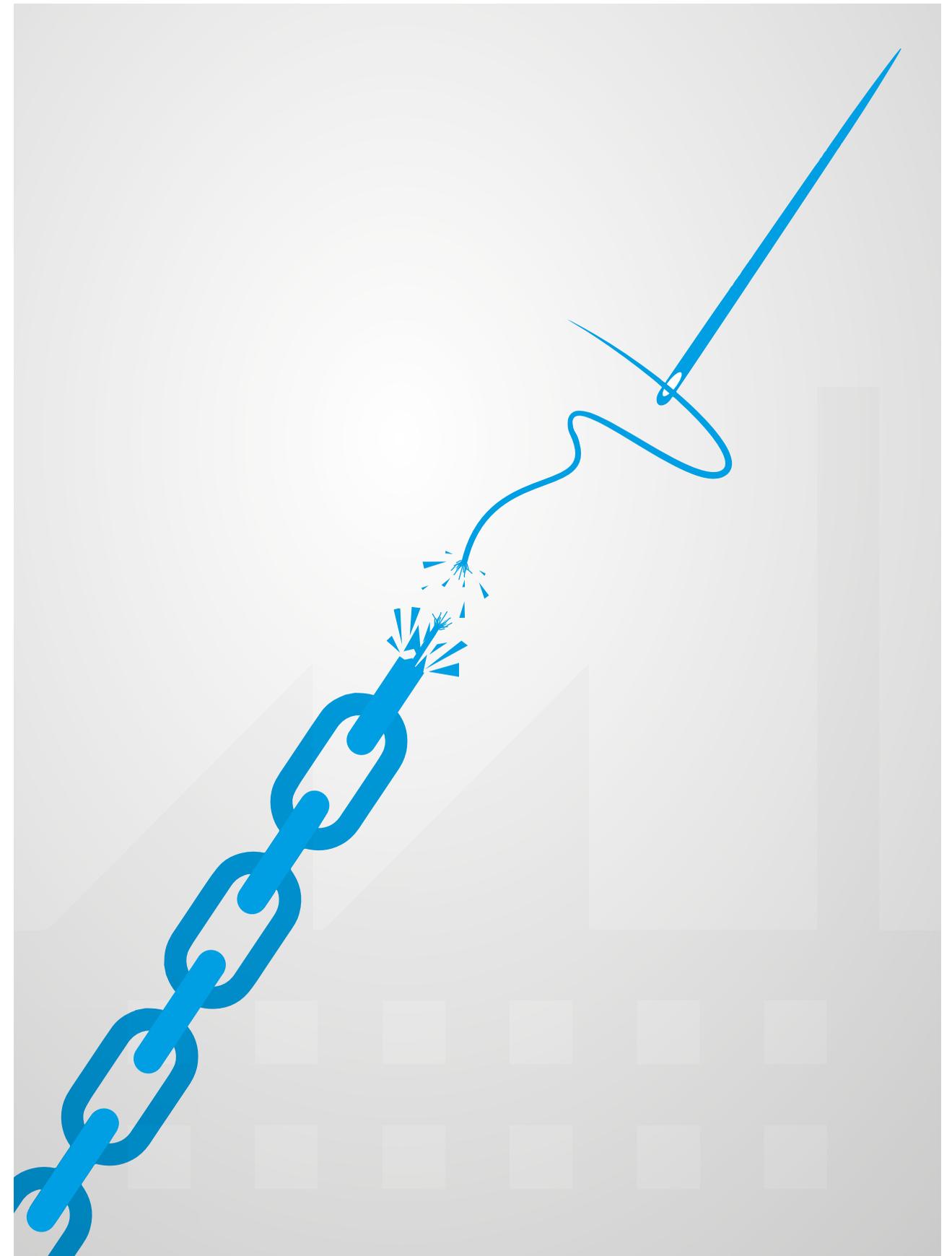
*In the 2000s, factory fires and building collapses, and a growing interest in corporate social responsibility, focused attention on the Bangladeshi RMG industry and its role in international supply chains*

## The industry behind Rana

Bangladesh is the second largest textile producing economy in the world, and host to over 5,000 factories employing some four million textile workers. These factories are a vital link in the supply chains of hundreds of fashion brands and retailers across the world. The trade from these retailers drives a readymade garment (RMG) export business in Bangladesh worth some \$28 billion per year in 2016-17; over 80 per cent of total export earnings.

The industry is not without controversy, however. By outsourcing garment manufacture to Bangladesh fashion brands and retailers have been able to reduce costs, lower prices and still boost profits. Yet Bangladeshi factories have not been bound by the same exacting safety standards or labour laws as most factories in the developed economies.

In the 2000s, factory fires and building collapses, and a growing interest in corporate social responsibility, focused attention on the Bangladeshi RMG industry and its role in international supply chains. Efforts were made to improve standards, through social auditing, for example, but these early



## RESEARCH

*Substance over style by Steve Coomber*

attempts were largely ineffective at bringing about wholesale change in safety standards and working conditions.

“If you think about the development of labour standards and global value chains, they really started with the anti-sweatshop movement in the 1990s; Nike was famously the first company implementing a code of conduct. But since then we’ve seen an explosion of standards, codes of conducts and so on,” says Reinecke. “You might have thought that the auditing would have picked up on the worst problems in the factories. Two factories at Rana Plaza were audited. Nevertheless the building collapsed – a dramatic illustration of how ineffective these regimes have been.”

The day before the Rana Plaza collapse substantial cracks appeared in the eight storey building. Yet, while a number of shops and offices in the lower floors closed the next day, several thousand garment workers were persuaded to continue to work in the building, partly because they lacked a strong collective voice. In the ensuing investigation it transpired that the building was not originally designed for factories and that three storeys had been added to the building without a permit.

“Because of the scale of the disaster, one of the worst industrial accidents we’ve seen in the industry, it was a wake-up call for both the companies and brands that sourced from Bangladesh and those that sourced from other areas where the safety record might not be ideal,” says Reinecke. “Child labour or poor pay is not always that visible, unlike the collapse of a factory building. It was what, in academic language, we call a focusing event, something so big that it focuses minds and can create large-scale change.”

**Complementary capabilities**

One aspect of Donaghey and Reinecke’s research investigated the challenges of influencing stakeholders in supply chains when the production in those supply chains is distributed across the

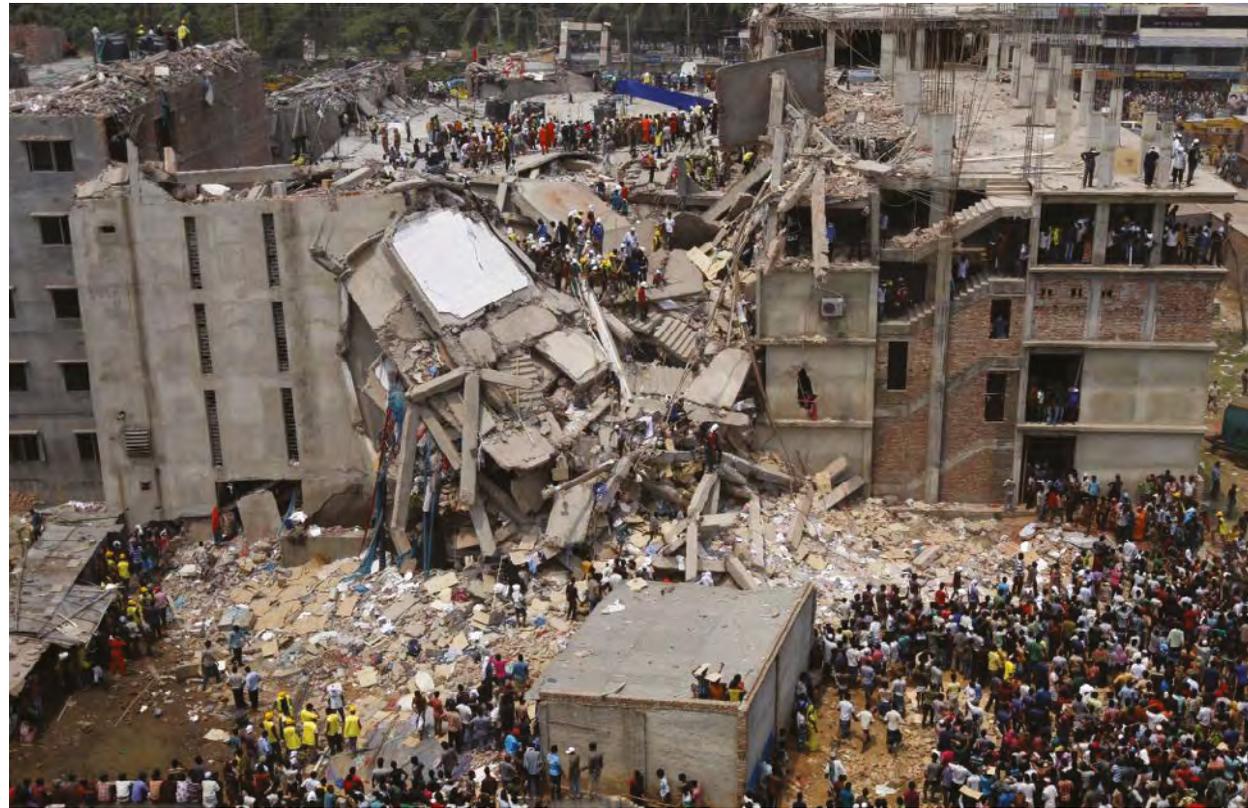
world. In particular, in the context of the Accord for Fire and Building Safety in Bangladesh, signed on the 15 May 2013 in response to the Rana Plaza incident, they looked at how national unions and global union federations, on the side of the garment workers, and social movement organisations (SMOs) that enable consumer oriented forms of activism, can act in coalition to bring about change.

Their findings show that the coalition between organisations acting for the workers and those representing consumer sentiment was crucial for leveraging relationships and getting companies to sign the Accord.

For their part, the unions representing Bangladeshi workers, while lacking the power to use collective industrial action effectively, had both strong claims to represent workers and relationships with many of the manufacturers. They also had good links with unions elsewhere in the world, and other global governance institutions such as the International Labour Organisation, which provided legitimacy and credibility to any negotiations they were involved in. Many of the brands involved were more willing to negotiate with unions than the SMOs, which were considered “outsiders”.

As for the SMOs, their ability to mobilise consumer sentiment in a highly competitive market was crucial. In doing so they could raise the issue of worker safety from the level of an ethical concern to that of a strategic concern for companies, especially through the threat of reputational damage via negative publicity in the media. Also, SMOs such as the Worker Rights Consortium, founded by student activists in 2000, could contribute specialist expertise and knowledge, as well as providing staff on the ground in Bangladesh.

Acting in concert, the two types of organisations could combine and leverage their different but complementary capabilities to bring about the Accord. Together they wielded sufficient power



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*The day before the Rana Plaza collapse substantial cracks appeared in the eight storey building. Yet, while a number of shops and offices in the lower floors closed the next day, several thousand garment workers were persuaded to continue to work in the building*

© FLICKR: SOLIDARITY CENTER

to get companies to sign up to the Accord, using institutional credibility and authority as well as the threat of collective action, and harnessing the SMOs campaigning expertise to exert pressure on brands. The result was an innovative labour governance mechanism, chaired by the ILO, and retailers and brands in developed nations, that gave credible commitments around worker rights.

**The nature of accountability**

The contents of the Accord are another focus of Donaghey and Reinecke’s work. They highlight a number of innovative features above those normally offered in standard CSR type initiatives.

Perhaps the most obvious innovation identified by Donaghey and Reinecke is the nature of accountability stipulated in the Accord. Traditionally corporate social responsibility measures are non-legally binding and self-regulatory. Stakeholder pressure is considered a sufficient incentive to keep to any agreement. Non-binding self-regulation also makes it easier to avoid costs associated with compliance, such as purchasing new equipment and introducing training, and non-compliance, such as arbitration or court costs. The risk being that a lack of enforceable sanctions makes it easier for commercial pressures to take precedent over compliance.

The Accord takes a relatively untested approach, say Donaghey and Reinecke. It is a legally binding agreement between IndustriALL and UNI Global (global union federations (GUFs)), Bangladeshi trade unions, and over 180 ready-made garment retailers and brands from 20 countries in four continents, together with four SMOs as ‘Witness Signatories’. Furthermore, the Accord includes a complaints procedure with binding arbitration, allowing enforcement to be pursued through national legal systems.

“If they violate the terms of the agreement, the companies can be tried in their home countries, where they’re based,” says Reinecke. “That provides

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## RESEARCH

Substance over style by Steve Coomber

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Bangladesh is one of the most densely populated countries in the world. The pressure on land resources, in the absence of robust widely policed and enforced regulations and legislation, leads to unsafe building practices. In the case of Rana Plaza additional floors were added without considering whether the building was structurally suitable



a major disincentive to breaking the agreement. No one wants to be in that position, because no one knows what the outcome would be. It creates strong accountability and an incentive to implement the agreement.”

Another key element is an auditing process designed to include input from technical specialists. In the past it has been common practice to use non-technical personnel to conduct social audits as part of a supply chain governance process. “The social auditors came with their check box, they asked questions about contracts, working times, and so on, but they weren't trained to assess the structural safety of a building,” says Reinecke.

And while some safety issues are relatively easy to spot, others are less obvious. Bangladesh, for example, is one of the most densely populated countries in the world. The pressure on land resources, in the absence of robust widely policed and enforced regulations and legislation, leads to unsafe building practices. In the case of Rana Plaza additional floors were added without considering whether the building was structurally suitable.

The Accord, however, facilitates the deployment of specialist engineers for structural, fire and electrical safety, with a separate section of the supply chain audit for each of these three areas. In addition, signatory companies committed to maintaining long-term sourcing relationships with Bangladesh at agreed purchasing volumes, for at least five years, and to funding safety inspectors and training coordinators. This provides an incentive for suppliers to invest in safety improvement and ensures that a degree of funding is available for such purposes.

Another aspect of the Accord that renders the response more robust is the collective oversight and action by the participants, say Donaghey and Reinecke. For example, firms that sign up to the Accord agree to terminate contracts with factories that fail safety inspections.

“Collective oversight means that if the Accord identifies one factory that's unsafe, all the companies sourcing from that factory have to commit to stopping their orders,” says Reinecke. “It is a big incentive for the factory owners to remediate

any shortcomings discovered during an inspection, because they know they can lose orders.”

Plus worker involvement is also enshrined in the Accord. This allows health and safety measures to be embedded in the workplace through Worker Participation Committees. “There has to be an embedded safety culture,” says Reinecke. “The workers need to be trained to know what to do and who they can turn to when they see a fire exit that's locked, for example. That way it becomes everyday oversight from within the factory, not just the external interventions of auditors going in to find problems.”

**Levelling up**

Shortly after the Accord was agreed, another initiative, The Alliance for Bangladesh Worker Safety, was created on July 10, 2013. The Alliance was driven predominately by North-American retailers representing some 90 per cent of RMG exports to the US from Bangladesh. Unlike the Accord it did not provide for a binding arbitration process, or the degree of worker participation and representation of the Accord. It did include local employer participation, however.

Understandably, there were fears that the Alliance, a self-regulatory non-binding agreement, would compete with the Accord, a legally binding agreement, and undermine the standards set by the Accord. And, if the existence of the Alliance weakened the ability of unions and SOMs to pressure Bangladesh factories into improving working conditions, then companies could continue to maximise profits and shareholder returns while paying lip service to maintaining socially responsible supply chains.

However, argue Donaghey and Reinecke, the evidence suggests that the presence of the Accord alongside the Alliance has led to a “levelling up” of standards, rather than standards declining. In their paper *When Industrial Democracy meets Corporate Social Responsibility – A Comparison of*

*the Bangladesh Accord and Alliance as responses to the Rana Plaza disaster* they show how the labour-worker driven Accord is complemented by the corporation driven Alliance, benefiting workers overall.

A major challenge will be maintaining the safety legacy of the Accord and Alliance when the agreements reach the end of their five year lifespan in 2018. In July 2017, the Accord announced a three year extension. The Alliance, however, has no plan to extend its remit beyond 2018. A further complication is the announcement that the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), which opposes the imposition of both the Accord and Alliance, is introducing its own initiative and it is unclear whether this will be as stringent as the Accord.

Whatever the long term outcome for Bangladesh's RMG industry in terms of worker safety, it is certainly the case that textile workers in Bangladesh today are safer and more empowered due to the Accord and Alliance. For example, in its May 2017 progress report the Accord noted that it had inspected more than 1,500 factories to date and found over 126,000 safety hazards, of which some 80,000 had been corrected. In addition, 233 joint labour-management safety committees had been established and over 800 training sessions delivered, covering more than one million workers. Between them, companies in the Accord and Alliance have severed relations with over 100 factories following inspection.

It is also clear that Donaghey and Reinecke's research into the response to the Rana Plaza disaster is of considerable value. Perhaps most importantly, their observations about the Accord's development, and its interaction with the Alliance, show other organisations how to combine elements of CSR and industrial democracy effectively to create an industrial environment that sets and assures good standards.

**Jimmy Donaghey** is Professor International HRM at Warwick Business School

**Juliane Reinecke** was Professor of Organisation Studies at Warwick Business School until September 2017



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ANALYSIS

BY DES DEARLOVE

# LEARNING TO SHARE

WBS's Pinar Ozcan is exploring the realities behind the sharing economy. She gives Des Dearlove a guided tour of the state of sharing.

Many commentators argue that the sharing economy – or collaborative economy – is the next big societal revolution. Firms such as Uber and Airbnb use information technology to enable the distribution, sharing and reuse of goods and services through peer-to-peer platforms.

The potential of the sharing economy is huge. PwC estimates that the global sharing economy will grow from US\$15 billion in 2013 to \$335 billion in 2025, a 23-fold increase compared to its current size. The range of industries using the sharing business model is also increasing.

With the right measures in place, the sharing economy is good business and good for society. It makes better use of resources and avoids wasteful duplication. But what are the prospects for the sharing economy in the UK and should the Government be doing more to encourage it?

Pinar Ozcan, Associate Professor of Strategy at WBS, is carrying out research with Professor Mark Kennedy and Dr Antoine Vernet from Imperial College, examining the growth of the sharing economy in the UK. The project, entitled "The Obstacles to the Rise of the Sharing Economy," includes a survey developed jointly between Warwick and Imperial.

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*With the right measures in place, the sharing economy is good business and good for society. It makes better use of resources and avoids wasteful duplication. But what are the prospects for the sharing economy in the UK and should the Government be doing more to encourage it?*

Ozcan explains: "The goal of our research is to start a global conversation about the sharing economy and compare and contrast the practices and institutional environment that sharing economy platforms are facing across countries."

### To share or not to share?

"The sharing economy is increasing quickly but at the same time around the world in different cities there's also a backlash where firms like Airbnb and Uber are getting banned in different places. That is creating a little bit of a dampener on growth. But in other areas – sharing cars for example, sharing parking spaces, these are all increasing," says Ozcan.

The researchers are working with the recently established UK trade body Sharing Economy UK (SEUK), a collaboration which has been extremely valuable, says Ozcan. The study used members' online sharing platforms to collect survey data. SEUK members also provided access to their founders and members of staff and to key policy makers.

The survey, the first of its kind, looked at the attitudes towards the sharing economy using a large sample – 1,000 respondents representative of the UK population. The findings were published in a 2016 report entitled *Understanding the Sharing Economy in the UK*.

Overall, respondents fell into three broad groups: "users" of the shared economy; non-users who had "heard-of-it" but did not use it; and non-users who

## ANALYSIS

Learning to share by Des Dearlove

had “not-heard-of-it”. Uber and Airbnb were the top two sharing websites that respondents had heard of followed by easyCar and Zipcar

As might be expected, the proportion of users – people participating in the shared economy – decreases significantly as age increases, with a peak of 52.7 per cent between the ages of 25 and 34. For respondents over 54, this proportion drops to 7.2 per cent.

But interestingly the proportion of “not-heard-of” was fairly stable across all age groups. Young people, between the age of 18 and 24, were the most likely to make the transition from awareness (heard-of) to action (user), while older individuals were more likely to be stuck at the stage of awareness (heard-of). There were no major gender differences, but men were slightly more likely to be users (+2.7 per cent) and women were more likely to have heard-of sharing platforms (+3.4 per cent).

The survey also looked at education and income, finding that more educated people were more likely to use sharing platforms, with 61 per cent of users among respondents holding a postgraduate qualification. Those with a higher income are also more likely to be sharers, with a peak of 81.2 per cent reached for households with a total income between £100,000 and £150,000. Users were more evenly distributed across geographical regions, with a small peak of 29.4 per cent for Southern England – mostly due to London – and less than average use in Scotland and Wales (19.6 and 23.1 per cent respectively).

**Changing attitudes to sharing**

The initial findings provide a baseline to understand changes in the use of sharing services by the population, and are part of a larger longitudinal study that aims to create a better understanding of the collaborative economy using a combination of qualitative and quantitative data.

The researchers are now analysing data from a more detailed follow up survey, which also includes

interviews with entrepreneurs from companies including Airbnb UK, easyCar, TaskRabbit, UnderTheDoormat, BlaBlaCar, Love Home Swap, and Economy of Hours. Critical institutional actors – policy makers, law enablers, advocacy organisations – are also being interviewed to develop a deeper understanding of the hurdles faced by the sharing economy in the UK.

“The second survey asks very specific questions about what kind of risks users are willing to take and what kind of measures might improve trust – for example, having a kitemark or a gold star,” says Ozcan.

“What we’re hoping to do is understand both the current state of what people are sharing and not sharing, and also the future intentions of what they are willing to share and not share. We also hope to understand what stops people using sharing platforms and what can be done to overcome their concerns – at the individual firm level but also at sector and policy level.”

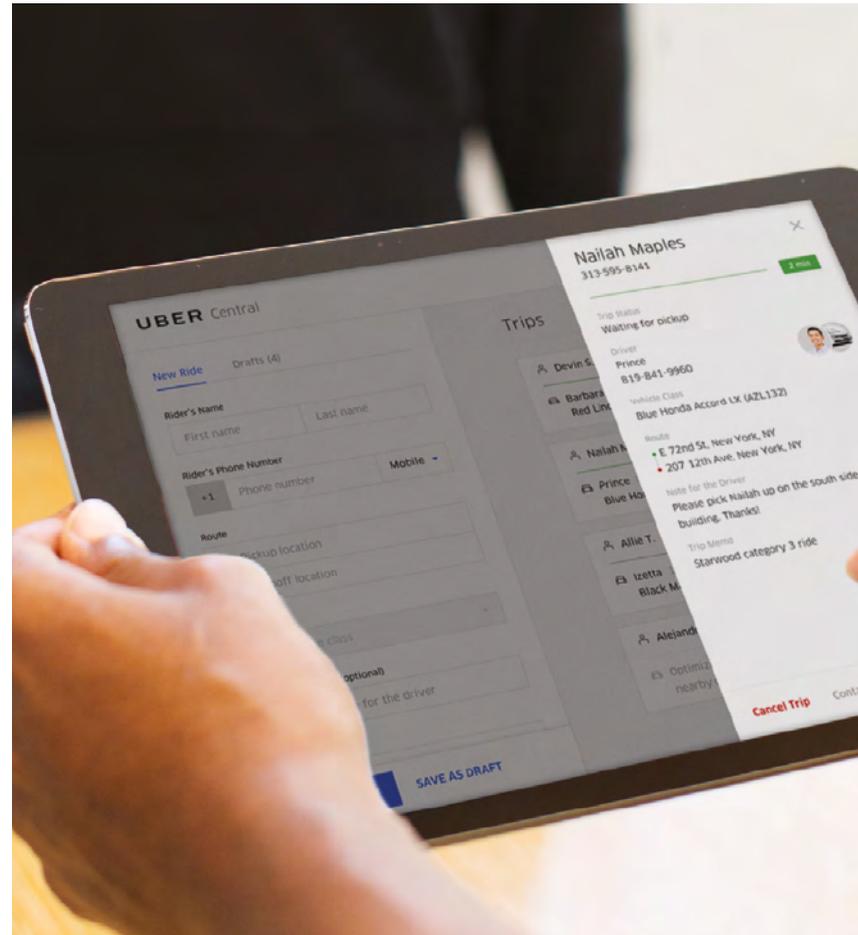
The research also examines how the new sharing economy firms will disrupt traditional business models. “As sharing economy firms act as facilitators of exchange rather than producers, this new form of exchange threatens the revenue streams of traditional incumbent producers such as taxis, hotels, restaurants,” says Ozcan.

The flipside of that is that it also creates new opportunities for entrepreneurs.

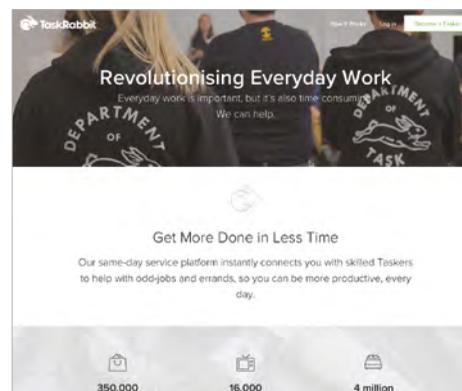
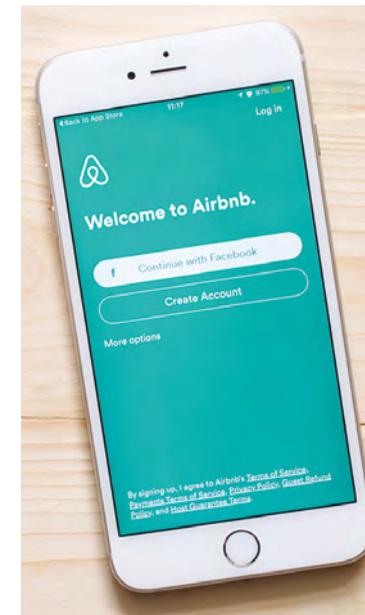
**Sharing is caring**

Ozcan also believes that the sharing economy has other positive effects.

“The sharing economy creates significant opportunities for entrepreneurs and the business community in general,” she says. “But also offers an equally important opportunity for society and the environment.”



Clockwise from below:  
Airbnb  
TaskRabbit  
Uber



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*The sharing economy is also ushering in a new generation of socially aware entrepreneurs – dubbed “dot-communists” by one journalist at Wired magazine. This may be over stating it, but collaborative consumption gives rise to a very different economic model*

She points to improvements in car utilisation and its associated carbon emission reduction as a good example. It is estimated that for every vehicle shared, around 11 vehicles could be replaced, and greenhouse gas emissions could be reduced by around 37 per cent. In terms of the social dimension, the sharing economy (also sometimes referred to as the ‘gig economy’) offers an opportunity for individuals to find temporary employment, generate extra income, increase trade, enhance collaboration and social interaction, and access resources, which are not otherwise attainable.

According to research by the car sharing company Zipcar, nearly half of the UK population (47 per cent) now rents and/or shares goods and services, generating an average saving of £531.10 per person – with the money commonly put aside to help offset food and energy bills. It estimates that the sharing market in the UK is already worth some £22 billion. Pay-as-you-live is the new mantra.

The sharing economy is also ushering in a new generation of socially aware entrepreneurs – dubbed “dot-communists” by one journalist at *Wired* magazine. This may be over stating it, but collaborative consumption gives rise to a very different economic model and one that challenges the direct ownership that is at the core of traditional capitalism. Ozcan has previously studied other technology companies but found striking differences with the sharing economy.

“I quickly realised the social purpose in sharing was very important. Companies like Airbnb, either for their own benefit but also for social purposes, were really trying to create a win-win relationship with society.”

“I was pleasantly surprised at how this social purpose was at the core of many of these platforms. And in fact some of them that don’t have that, like Uber for example, were actually being ostracised for taking advantage of legal loopholes in order to do things rather than trying to benefit society.”

## ANALYSIS

Learning to share by Des Dearlove

## CLEARING THE HURDLES

The sharing economy was kickstarted in 2008 when Brian Chesky and Joe Gebbia offered a place to sleep on an airbed on the floor of their San Francisco apartment to people attending an industrial design conference in the city. Since then millions of people have used the site to find accommodation. Similar businesses based on the same principle have mushroomed, all of which respond to the demand for paying for what you use on an as-needed basis.

## Encouraging sharing

So, what are the factors that enable or hinder the growth of the sharing economy in the UK? And what can be done to support it? These were some of the questions addressed by research at WBS and Imperial, in collaboration with Sharing Economy UK (SEUK).

The overall picture is mixed. In 2015, the UK Government seemed to be taking significant steps to encourage the growth of the sharing economy. Policies included:

- The launch of 'sharing city' pilots in Leeds and Manchester
- Making it easier for people to share homes and spare rooms
- Encouraging discounted rates to those wanting to use shared community workspaces
- Incentivising the use of the sharing economy in government departments.

The Government's policies followed a number of suggestions made by experts such as Debbie Wosskow, founder of SEUK.

Wosskow made a number of recommendations for the sharing economy to thrive. Among them:

- Nurturing innovation led by the private sector and supported by NESTA and Innovate UK
- Improving trust – for example by opening up the existing identity verification system GOV.UK Verify, to the private sector, including sharing economy businesses; and the launch of a recognised kitemark and code of conduct (TrustSeal, launched by SEUK already has eight members including Airbnb.)
- Insurance should be adapted to the needs of the sharing economy
- Digital inclusion – reaching new audiences, educating the population
- Making tax arrangements easier.

A number of these recommendations have yet to be implemented.

## Bumps in the road

Such was the rapid rise of the sharing economy that in 2011, it was named one of *TIME* magazine's 10 ideas that will change the world. Back then the trend looked unstoppable. Companies such as Uber and Airbnb seemed to be sweeping all before them. But today the inexorable rise of the sharing economy looks less certain.

The speed at which sharing economy firms are growing is causing frictions. Uber has hit problems. Its business model has been questioned, and the company has faced criminal investigation in places such as the Netherlands and France because of allegations that the firm was violating the countries' taxi laws. Allegations of sexism and racism also led to the resignation of its founder and CEO Travis Kalanick. It remains to be seen whether these are just bumps in the road or represent a more serious accident for the taxi hailing service.

"Interestingly, even scandals are a double edged sword," says Ozcan. "On the one hand of course it's bad press, but at the same time it raises awareness for the service, which actually ends up with more people signing up for it."

What does seem clear is that the Uber scandals have bruised the reputation of the sharing economy. When SEUK was founded it wanted to create a positive image and focused on the social impact. Such was the concern about the controversy surrounding Uber that SEUK refused to let the firm join. Other sharing platforms have cultivated a softer image.

## Sharing the benefits

"What Airbnb does when it goes into a city, and they've done this in London, is work with the fire department to make sure that all of the houses that are being offered are up to the fire code," explains Ozcan. "They also have training for the hosts on different kinds of safety issues. And they also give information to the Mayor's office – for example in terms of how tourism is growing in

the outer boroughs of London, which helps the city manage tourism and also congestion.

"We call this the more win-win approach where they go and work hand in hand with certain institutions which makes them more likely to be accepted by the community. And this approach also helps the smaller sharing platforms, which belong to the same association, because Airbnb puts resources into lobbying and creating certain relations with municipalities, but then the sharing platforms benefit from that as well. So in a sense Airbnb, and the larger platforms, are doing it both for themselves but also for the entire sector."

## Sharing the big picture

In the Western world, the last century was characterised by a single word: consumption. Now, a host of trends and technologies are pushing individuals and organisations to business models based on collaboration, the careful stewardship of fast disappearing resources.

Ozcan agrees: "I strongly believe that innovation driven by technology is good for society. The sharing economy may involve an even bigger behavioural change than the internet. But when these innovations disrupt the current system the laws and regulations need to be updated to decide who is going to pay taxes, for example. We hope our research can help inform that conversation by presenting the perspective of the different parties."

"If we can create a safe environment with clear boundaries for what is sharing and how sharing should be done, then this is a new way for people to behave. It means we don't need companies to do certain things. It's much easier to share among ourselves. It's more socially oriented. It's also much better for the environment. We are connected to everyone around us, so why not use that to find more efficient ways to get our things done and to interact and re-use our resources?"



## CHINESE BIKE SHARING

The Chinese company ofo is the world's first and largest station-free bike-sharing platform enabled by its ofo mobile application. Founded in 2014, ofo's global achievements in the past three years have been phenomenal – 6.5 million bikes in more than 150 global cities, an overall valuation of over \$3 billion dollars, 65 per cent market share and 25 million daily transactions.

The company began life in 2014 with its founders pooling private savings of 150,000 yuan (\$21,800). Dai Wei, the 26-year-old entrepreneur, named the firm ofo as the letters look like a bike. Its value was recently calculated as more than \$3 billion. Over 6.5 million of the company's bright yellow bikes can be found in more than 150 cities around the globe. As of today, ofo has launched in seven countries, including China, the US, the UK, Singapore, Kazakhstan, Thailand and Malaysia and is looking to complete launch in 20 countries by the end of 2017.

ofo champions the causes that its founder and CEO, Dai Wei cares about – creating smart cities, environmental protection and healthy living. ofo's rapid global expansion suggests its values strike a chord with people around the world.

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*In the Western world, the last century was characterised by a single word: consumption. Now, a host of trends and technologies are pushing individuals and organisations to business models based on collaboration, the careful stewardship of fast disappearing resources*

**Pinar Ozcan** is Associate Professor of Strategic Management at Warwick Business School



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RESEARCH BY STEVE COOMBER

# A TRIP TO THE HUMAN ZOO

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*Behavioural science is the scientific approach to individual behaviour applied to understand social and economic phenomena. Trying to understand the mechanisms inside individual people and how those mechanisms apply in aggregate behaviour – how they affect social behaviour, markets, the economy*

Nick Chater of WBS is leading the thinking and practice behind behavioural insights. Steve Coomber visits the human zoo.

In the summer of 2010 the UK Government set up the Behavioural Insights Team (BIT), or the “Nudge Unit” as it is often called. Its role was to “find innovative ways of encouraging, enabling and supporting people to make better choices for themselves”. That same year, Professor Nick Chater, a member of BIT’s academic advisory panel, helped to found the Behavioural Science group at Warwick Business School, putting the school at the forefront of the study of behavioural science and its relevance to business and finance. Taken together, these initiatives sent a strong signal to senior executives that it was time to take behavioural sciences seriously.

“Behavioural science is the scientific approach to individual behaviour applied to understand social and economic phenomena,” says Chater. “Its methods are, to some extent, experimental. Trying to understand the mechanisms inside individual people and how those mechanisms apply in aggregate behaviour – how they affect social behaviour, markets, the economy.”

The WBS Behavioural Science group brings together some of the best minds from a range of subjects including psychology, economics, mathematics, statistics, physics and primatology. Together the group’s members provide behavioural perspectives on decision-making, strategy, finance, marketing and other aspects of private and public organisational life.

“We look at how individuals really form judgements about the world and how they make decisions,” says Chater. “Behavioural science is having more and more of a role to play in helping businesses and governments interact with people and providing insights into improving everyday life, for example.”

## RESEARCH

*A trip to the Human Zoo by Steve Coomber***Human behaviour under the microscope**

In the years following the founding of the Behavioural Science group Chater has become widely known for his work on the BBC Radio 4 programme *The Human Zoo*, evangelising the power of behavioural science.

The radio programme, presented by Michael Blastland, began in 2013 and completed its eighth series in 2016. Chater is the resident academic expert, and has also helped to devise a series of online experiments, hosted by WBS, which ran in tandem with the radio show.

The show provided a platform for Chater to explore the extent to which factors such as reason, emotion and instinct drive human behaviour. In doing so, *The Human Zoo* and the online experiments from the WBS weblab, provided insights into human behaviour that had practical relevance for a business audience.

Take an episode that examined decision-making, for example. Chater explains how making a difficult decision, having selected one route from a number of options, can affect the way we behave and think afterwards. "We tend to stick to a decision and get the rest of our thoughts in line with the decision we've made," says Chater. "And as long as we stick by what we thought, we're likely to feel either we have triumphed, or very cross that the outcome isn't what we desired, and that tends to harden attitudes."

However, if the decision made is objectively a bad decision then adopting a binary perspective – either it's 100 per cent the right approach or 100 per cent the wrong approach – can prevent appropriate evaluation and action post-decision, notes Chater. "There's a cost, later when evidence comes in – we tend to be blind against arguments that make us think, 'I was wrong after all'. Even if, to an outsider, one side or the other is more clearly right. So always bear in mind that you should spend at least as much time thinking why you might be wrong as why you might be right."

Perhaps disconcertingly for an expert in the field of behavioural science, in another episode Chater reveals that, when it comes to forecasting, both experts and non-experts are generally fairly inaccurate – something executives (and economists) would be wise to remember.

"We should expect experts to be clear about the limits of their forecasting ability. But consistently, year upon year, generation upon generation, experts continue to be much more confident than they should be in their own expertise," says Chater. "It's very hard for us to know what we don't know. Trapped within the bounds of our own view of the world, if there are things outside of our own imagination and sense of what is possible, we tend to ignore them."

In fact, says Chater, the more time that passes the more confident the experts become and the better the tale that they can tell about why they must be right. However, they do not actually become more accurate. So experts need to be more aware of the limits of their knowledge.

As for non-experts, they tend to overestimate their expertise. "We see that non-experts are even more prone to believe that they know more than they really do," he says. "Even in areas where we feel confident, we are often wildly wrong even about things that are familiar to us."

Another aspect of human behaviour, highlighted during *The Human Zoo* series, that business practitioners and policymakers should pay attention to is the psychology of rare or strange events. These types of events, which would include stock market crashes and banking crises, stand out because they are scarce and particularly so if they stimulate our emotions, if they provoke fear or empathy, for example.

Events particularly grab our attention if they shake our 'model of the world'. It is disturbing to be confronted with a situation that shows our current perspective on the world to be incomplete. "We



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*Perhaps disconcertingly for an expert in the field of behavioural science, when it comes to forecasting, both experts and non-experts are generally fairly inaccurate – something executives (and economists) would be wise to remember*

become unclear how, or whether, we will be able to find a new sense to the world – perhaps people are behaving in ways we just can't understand. The events seem senseless," says Chater.

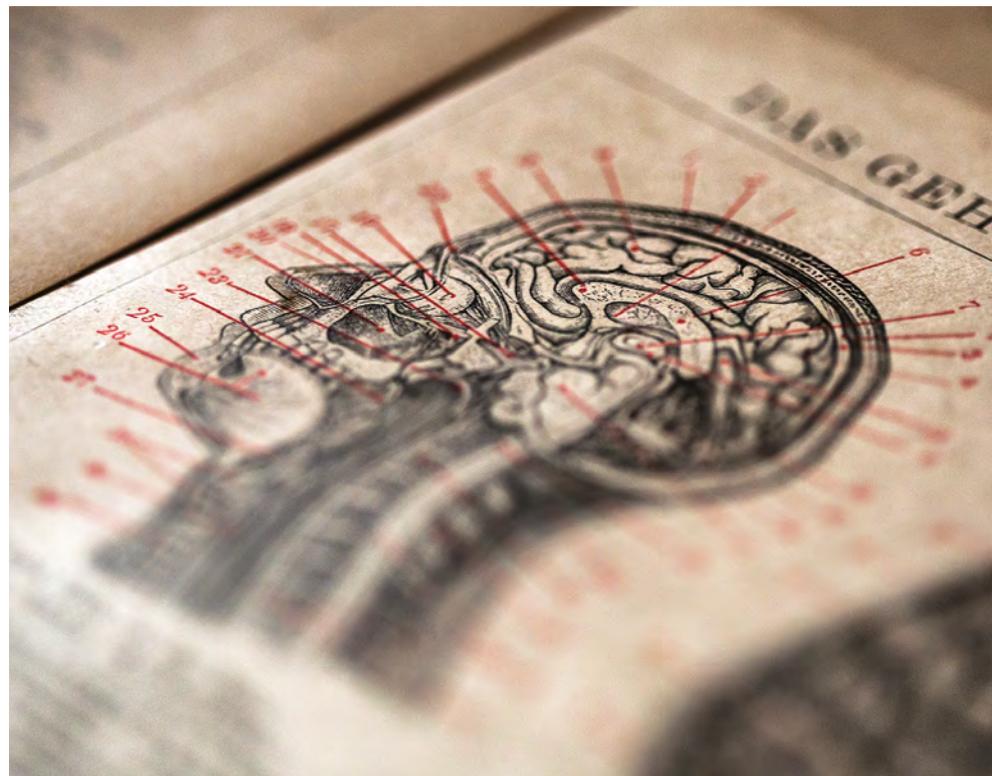
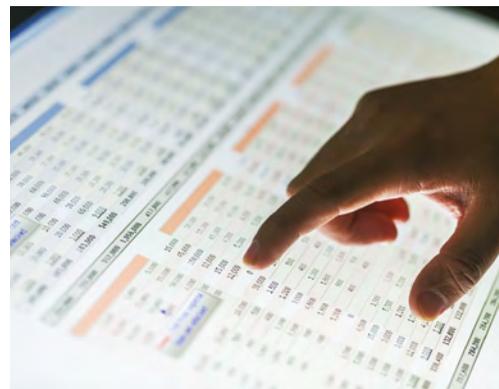
In response to this challenge to our sense making abilities we tend to find comfort in routine everyday activities. "A lot of our leisure activities are about finding little corners of the world that do make sense away from the rare events – solving puzzles, Sudoku and crosswords or watching TV mysteries where the murderer is caught and punished," says Chater. "These are activities in which everything makes sense and we feel reassured. A nice contrast to the open ended and confusing world we often feel surrounded by."

Understanding the way that we are likely to respond to rare events should help people deal with these events more appropriately. That includes senior management. Over time, for example, corporations invariably encounter crises. Fortunately corporate crises, whether it is a problem with car emission readings or a spate of exploding phones, tend to be comparatively scarce. However, behavioural science suggests that senior executives unable to make sense of these traumatic events may resort to "rearranging the deckchairs on the Titanic" type activity, rather than seeking to address the root cause for any crisis swiftly and directly. Executives may seek the comfort of routine activity rather than engage in necessary change.

A final example of the many behavioural insights covered during *The Human Zoo* programmes is the way that people deal with potentially unpleasant information. In our minds, says Chater, there is a constant battle between our short and long term self. Our tendency is to prefer the short term reward of avoiding potentially unwanted information at the expense of incurring pain in the longer term as a result. We bury our heads in the sand. Thus experiments show that people would rather not know the results of medical tests, such as those for HIV, for example, even when knowing

## RESEARCH

A trip to the Human Zoo by Steve Coomber



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*A tendency known as hyperbolic discounting is where we tend to discount the future, so we increasingly choose the sooner and smaller reward rather than the bigger reward further into the future*

the results would allow them to begin taking the appropriate treatment, if necessary.

This phenomenon easily translates to a business setting. Thus executives might take a profit in the short term rather than incur costs today which would, although reducing profits in the short term, avoid losses or lead to greater profits in the future. “This impulse to remain ignorant is driven by our tendency to pay too much attention to the present and to ‘discount’ the future excessively, a tendency known as hyperbolic discounting,” says Chater. “This is where we tend to discount the future, so we increasingly choose the sooner and smaller reward rather than the bigger reward further into the future.”

**The mind is flat**

*The Human Zoo* programme is just one of many behavioural science activities that Chater is involved with. At WBS he has been instrumental in creating and delivering behavioural science

related programmes. These include a Principles of Cognition module for the MSc Business, Behavioural Sciences for the Manager on the Executive MBA, and Judgement and Decision Making on the MSc Finance.

One of the most innovative courses that Chater helped to devise is the Massive Open Online Course (MOOC) entitled *The Mind is Flat: The Shocking Shallowness of Human Psychology* and launched on the FutureLearn platform in 2013 (his book, *The Mind is Flat*, will be published by Penguin in early 2018). In the MOOC, which has been run a further six times since 2013, with over 35,000 participants, Chater makes a case for a controversial view of the workings of the mind.

“Our everyday conception of how our mind works is profoundly misleading,” says Chater. “A very natural intuition is to think that introspection – looking inside our minds – is very like perception – looking at the outer world – and that the things inside our

own minds are just as complex, just as rich, and just as three dimensional, as the world around us.

“But we are victims of an illusion of mental depth – we imagine that our thoughts and behaviours arise from hidden motives and beliefs and that we can understand ourselves by somehow uncovering these hidden forces, whether through therapy, lab experiments or brain scanning.

“However, rather than there being a fixed inner world which you can look inwards at and see, in fact it is much more the case that you are improvising and creating the answers to the questions that you are asking as you go along. It’s a patchwork of improvisational moments.”

As well as teaching, Chater has also made a significant contribution to behavioural sciences through his research activities with the WBS Behavioural Science group. At present, for example, he is the principle investigator in a research project funded by the European Research Council, looking at cognitive and social foundations of rationality.

At its most extreme one view of the way our minds work might hold that there is no “will” as such and that our minds are essentially machines processing stimuli and responding automatically. Therefore, our behaviour is determined. An alternative view, however, might argue that we are conscious decision makers choosing our actions in a thoughtful, rational manner.

The research project investigates the extent to which these different perspectives interact, and can be reconciled. It does so using a combination of mathematical, computational, and experimental methods as well as philosophical inquiry.

Another project at WBS involves establishing an open Big Data platform. Funded by the Research Councils UK Digital Economy Programme, via the ESRC, the project is improving our understanding of the possibilities created by Big Data technologies.

In this case the WBS Behavioural Science group is applying a cross disciplinary, cross institutional approach, using online information flows that capture the mass activity of consumers to provide insights into the early stages of collective decision-making.

As WBS celebrates its 50th anniversary the Behavioural Science group has firmly established its reputation as a pioneer and leader in its field through its teaching, research, and involvement with public and private sector organisations.

As for the Behavioural Insights Team, founded by the UK Government it is now a social purpose company, jointly owned by the UK Government, the innovation charity, Nesta, and its employees, and still focused on using a better understanding of human behaviour to improve public policy.

And, in an exciting new initiative, WBS and the Behavioural Insights Team are combining expertise to deliver a short executive education programme on behavioural science. The Behavioural Science in Practice programme will be delivered in December 2017 at WBS London at The Shard building in London.

The intensive five days of study of behavioural sciences will look at models of human behaviour, beliefs, leadership, and preferences. Chater is leading on the academic content of the programme, while Michael Sanders and Owain Service, the BIT’s Chief Scientist and Managing Director respectively, will be exploring how behavioural science theory can be applied in the real world.

For participants seeking to better understand human behaviour, learn about some key principles related to behavioural science, and see how these can be applied to real world problems, it will certainly be a firm nudge in the right direction.

**Nick Chater** is Professor of Behavioural Science at Warwick Business School



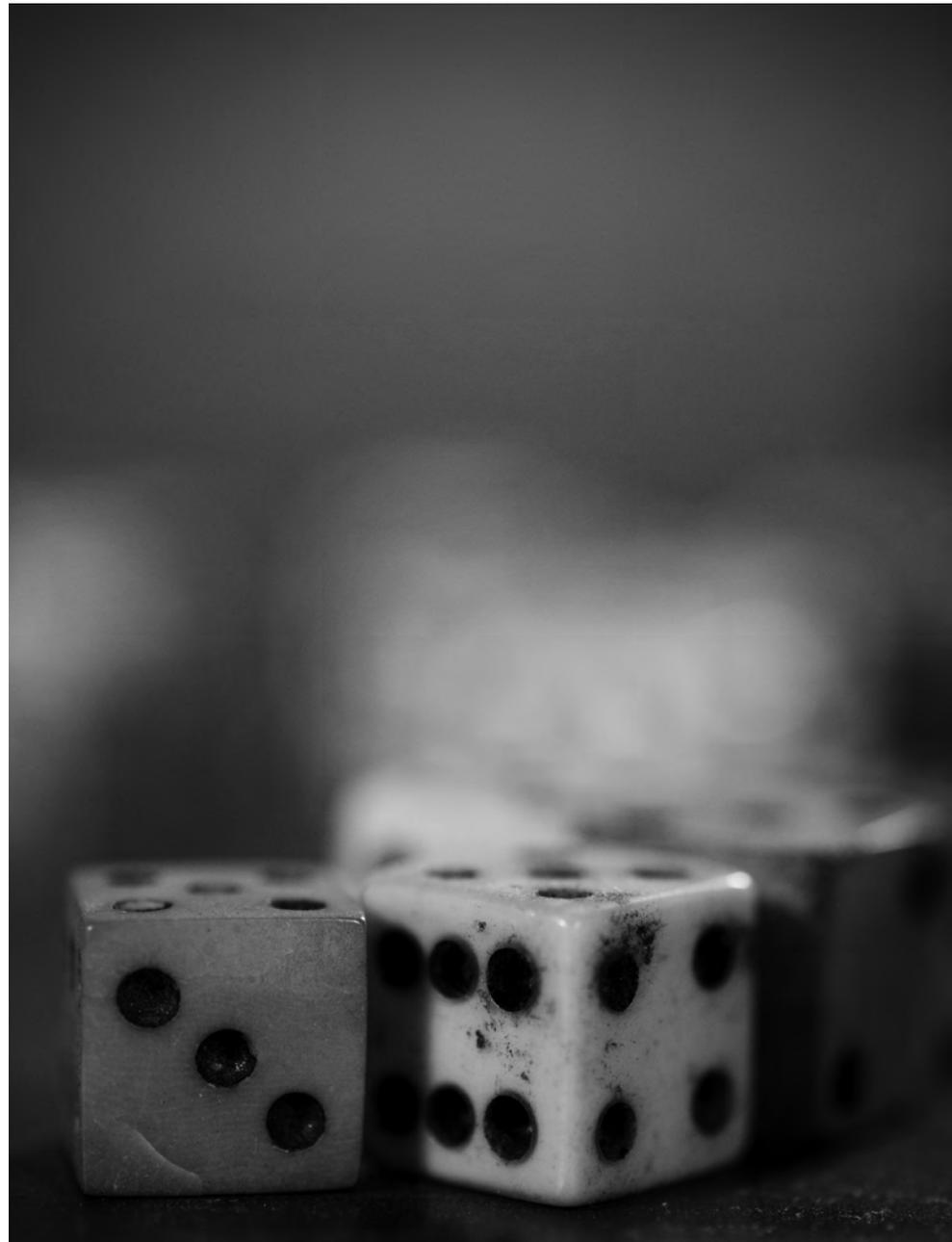
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## DEAR CEO...

You are leading one of the most successful corporations in our time. I study how great companies fail. One shared feature of the failed companies I have looked at is that their leaders could not overcome some systematic biases in their decision-making. Worse, they were overconfident in their decisions and their errors were not challenged. Here are three tips for helping you to learn from three damaging mistakes they made for improving your decisions.

First, be cautious about ideas or candidates with unanimous support. We like consensus, but ancient Jews knew that if a suspect on trial was unanimously found guilty by all judges, then the suspect was likely to be innocent and would be acquitted because unanimous support indicates that there must remain some form of undiscovered exculpatory evidence. Given that everyone has their own preference and bias, unanimous support is too good to be true and likely to indicate hidden processes such as the candidates are better at politicking and compromising than making important, difficult choices. Or, unanimous support can signal that your employees or top management team are too similar-minded. Overcome your consensus bias and choose an idea or appoint someone against unanimity (or even hated by your colleagues) – these wildcards are likely to be opposed or hated for good reasons and can shake things up.

Second, demote your best executives before succession. A great Chinese emperor sent his best chancellors to prison for trivial causes before his death. The reason was to protect them from the political conflicts during succession and to give the young emperor a chance to gain the loyalty of these seasoned chancellors by promoting them



after the succession. This was a difficult decision because most people thought the emperor had lost his mind. To ensure your successor has the best executives, particularly those who lost in the successor competition, leaders can learn from the old Chinese emperor. The challenge is to overcome your ego bias – your decision will be ridiculed, but it is likely to be good for your successor and the longevity of your company.

Third, attributing your successes to luck to get lucky. You are already successful. Most people intuitively believe you must have done something right to deserve your successes. Attributing your successes to skill and hard work publicly does not strengthen others' favourable attributions about you. In fact, research shows that attributing successes to one's own skill and effort will make one look self-serving, arrogant, narcissistic and untrustworthy. Why not take advantage of others' predictable attribution tendencies and attribute your successes to luck instead? Acknowledging

“”

*Research shows that attributing successes to own skill and effort will make one look self-serving, arrogant, narcissistic and untrustworthy. Why not take advantage of others' predictable attribution tendencies and attribute your successes to luck instead?*

luck does not make you look weak. Rather, people will continue believing that you deserved your successes. They will also consider you as modest and trustworthy when you say you were lucky. Exploiting others' success bias can even make you luckier – people with new ideas and opportunities will likely choose you and your company as a collaborator when your competitors' CEOs fail to overcome their luck bias.

Consensus bias, ego bias and success bias are just three of the biases that hurt important decisions such as innovation, leadership succession and stakeholder management. My work on leader decision-making outlines systematic ways to “strategise with biases” for improving decisions and sustainable performance. I look forward to working with you and your team!

Yours faithfully,

Chengwei Liu

**Chengwei Liu**, originally from Taiwan, is now an Associate Professor of Strategy and Behavioural Science at Warwick Business School. He was selected as a thinker to watch in the 2016 Thinkers50 Radar



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## DEAR CEO...

Have you ever watched a restaurant's kitchen during the lunchtime rush? Pots and pans are flying everywhere while orders pile in and in the midst of the chaos the head chef has to keep her calm.

How does she do it? Working hard and fast of course, but above all by prioritising and directing tasks. I bet your job feels somehow similar with multiple demands piling in at the same time. So what should be your priorities?

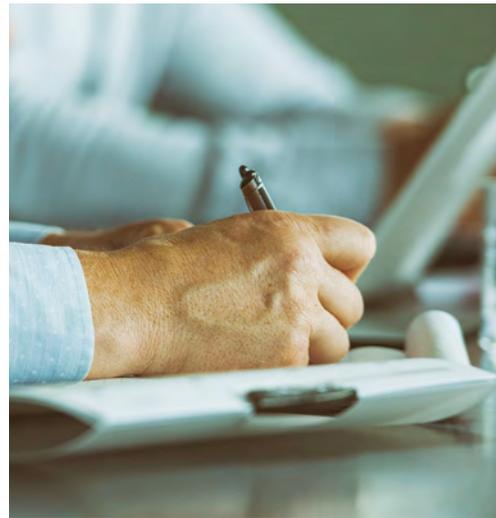
**First, ensure strategic ambidexterity.**

It's great to talk about exploration, innovation, and new ideas but shareholders want to see returns. Exploitation, efficiency, and cost-cutting help to achieve that but naturally they are less popular with employees.

To achieve sustainable competitive advantage you have to do both. As a scholar I could point you to a highly cited 1991 article by Jim March on this topic (yes, this idea has been around!) but a brief look to giants like Apple or Google would do as well. Both manage to keep unit costs down and remain at the cutting edge of technology. The latter has decided to reorganise its business so that Google Search and YouTube can optimise proven business models while Google X and Google Capital provide the room to experiment. If want to make a living today, but be ready for tomorrow, make sure your company is ambidextrous too!

**Second, give diversification another shot.**

In the 1990s and 2000s the growth path seemed obvious. Concentrate on your core business and take it international. After all tariffs were coming down and globalisation was bringing the world together. Remember the global village?



To some extent this is still true, but there is also a backlash from those who benefitted less from these developments. The result: borders are real. In a recent study with two colleagues, Michael Mayer and Julia Hautz, I showed that companies without prior international experience lose money (overall, not just internationally) for the first five years of their effort to do business overseas and the Return on Assets is only half of those who stay local in the five years after that.

Instead, why not leverage your resources across industries? Tata, Infosys, and Samsung have shown that their ability to share talent, brand, networks, and capital puts them ahead of others trying to navigate challenging emerging economies. But slightly broader agendas are becoming visible in Europe and the US as well. Once again tech giants such as Google come to mind, but efforts by Uber to move into food delivery or Snapchat's flirt with financial services point in a similar direction. If you have resources that can be re-applied elsewhere, ask yourself why not?



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*Those who invest now will dominate later. With falling commodity prices Africa might look less attractive, but the opposite is the case. It's cheaper to enter today than a couple of years ago while demographics tell a clear story*

**Third, Africa will be the next China.**

Volkswagen first went to China in 1978 and signed a contract to manufacture vehicles in Shanghai in 1984. It held the leading position in this market for over 25 years. Africa will play out the same way.

Those who invest now will dominate later. With falling commodity prices Africa might look less attractive, but the opposite is the case. It's cheaper to enter today than a couple of years ago while demographics tell a clear story: 52 cities with more than a million inhabitants and a growing middle class are starting to turn into attractive markets.

There are also exciting technological developments. With 17 million bank accounts and a transaction volume equivalent to 42 per cent of Kenya's GDP in 2015, M-Pesa is the world's most successful mobile payment system. It also created a new ecosystem. M-Kopa sells home solar systems, which people pay through instalments on an integrated mobile payments system using M-Pesa. It provides electricity to 300,000 homes today! So the remaining question is how you can navigate the challenging institutional environment. M-Pesa provides the answer. Vodafone partnered with Kenya's largest telecom operator to launch M-Pesa, so follow its lead. Local partners will provide the links necessary to succeed.

Let me return once again to the kitchen before I end my letter. Some of the best dishes have a few powerful ingredients. Strategy works in a similar manner. Strategic ambidexterity, diversification, and an Africa plan are today's ingredients for a three-star company.

Best,

Christian Stadler

Christian Stadler  
is Professor of  
Strategic Management at  
Warwick Business School



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## FINAL WORD



**Maja Korica**  
Associate Professor  
Warwick Business School

An associate professor at Warwick Business School, Maja Korica's research focuses on understanding the nuances of complex and rarely seen organisational settings, particularly at the top of organisational hierarchies. A recent study involved close observation of NHS trust chief executives to better understand their decision-making, and the nature of their everyday work.

**Q: What book are you currently reading?**

I am a 'multiple books on the go' kind of a reader. At the moment, I am making my way through Omar Saif Ghobash's *Letters to a Young Muslim*, and *We are the Change We Seek: The Speeches of Barack Obama*.

**Q: How do you describe what you do?**

I spend longer periods of time with interesting people in fascinating organisations or contexts, to understand what they do and how. Then I discuss that with my students at Warwick Business School, and write about it as well.

**Q: Who or what is your biggest inspiration?**

My mother, for teaching me tolerance and providing perspective. My partner, for being unapologetically himself, and living a life of principles. Everyday people I know and meet.

**Q: What does success look like?**

Freedom to do and say what you feel is right, consistently, without apologies, and to make this possible for others as well.

**Q: What is your competitive advantage?**

I am not sure it is or needs to be a competitive advantage – I prefer to talk of more or less unique skills we each have. In my case, it's likely engaging

with everyone as a human being, whose individuality I respect and want to understand in nuanced ways. Earning almost instantaneous trust is key in my research – and people don't give that easily.

**Q: How do you keep your thinking fresh?**

Detaching myself from my every day by travelling frequently. Seeking out interesting people, the more seemingly different from me the better. Chatting to everyone I encounter – you never know what people can teach you.

**Q: How much time do you spend travelling?**

As much as possible – it is one of the great privileges of my life.

**Q: What is the secret of a great presentation?**

A light-hearted joke at the start, and a human story to tie it all together.

**Q: What advice would you give to anyone who wants to follow in your footsteps?**

Give time to others. Find your people, and work together to make it fun. Learn to say no. But mostly, do your own thing, with integrity.

**Q: What is your next goal?**

To go back into the field and finish up our project interviewing experts on how on-the-ground coordination happens in refugee emergencies. An important and continually relevant subject, plus fascinating people whose experiences ought to shape our thinking.

**Q: Describe yourself in three words.**

Engaged. Curious. Surprising.

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