

Collaboration to Co-Creation

What can business learn from an operation theater, a mountaineering expedition, etc.? When a team of doctors attends a patient with multiple fractures, it's a sign of collaboration. When a team of gutsy individuals embarks upon a Herculean task like trekking a high-rise mountain, they collaborate. There are, of course, many more such instances where collaboration plays a crucial role in achieving the desired results. Why shouldn't business imbibe such best practices? One might argue that doctors are bound by their professional responsibilities and mountaineers collaborate out of sheer desperation. Agreed. Businesses too are witnessing radical changes, forcing collaboration as a competitive necessity. One form of collaboration that has been gaining popularity over the recent years is open source innovation. The case of Firefox illustrates this point.

A number of new and emerging technologies, many aimed at enhancing the way the Internet is used, promise to change how companies innovate, managers make decisions, and businesses lower costs, tap talent, or realize new business opportunities. McKinsey recently argued that over the next decade, eight technology-enabled business trends – distributing co-creation, using consumers as innovators, tapping into a world of talent, extracting more value from interactions, expanding the frontiers of automation, unbundling production from delivery, putting more science into management, and making businesses from information – will really matter.

As companies reach beyond their boundaries to find and develop ideas, they are exploring new models to manage innovation. In projects that tap external talent, questions quickly arise about process management, intellectual-property rights, and the right to make decisions. Some executives have been at this game longer than others. Mitchell Baker, Chairman and former Chief Executive Officer of Mozilla Corporation, has devoted the past 10 years to leading an effort that relies extensively on people outside her company – not just for creative ideas, but also to develop products and make decisions. The result: Mozilla's Firefox browser, with 150 million users, has become a rival of Microsoft's market-leading Internet Explorer. As Firefox flourished, the process that created it became a model for participatory, open-source collaboration. Today, Mozilla and Firefox are successful on several levels. Having recaptured market share lost to Internet Explorer, Firefox now holds a 15% of the browser market in the United States and a higher share elsewhere.

Open-source innovation, co-creation (as propounded by late CK Prahalad and Ramaswamy in *The Future of Competition*) or any other form of collaboration, the truth is that collaboration and co-creation shall be the new platforms for competition. If competition makes companies overcommit their resources with a few good results, collaboration enables companies to operate with a few resources getting many good results.

Dr. Nagendra V Chowdary



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All lasting business is built on friendship.

– **Alfred A Montapert**

Meetings are indispensable when you don't want to do anything.

– **John Kenneth Galbraith**

Business, more than any other occupation, is a continual dealing with the future; it is a continual calculation, an instinctive exercise in foresight.

– **Henry R Luce**

A budget tells us what we can't afford, but it doesn't keep us from buying it.

– **William Feather**

Nothing so conclusively proves a man's ability to lead others as what he does from day to day to lead himself.

– **Thomas J Watson**

A business like an automobile, has to be driven, in order to get results.

– **B C Forbes**

About the time we can make the ends meet, somebody moves the ends.

– **Herbert Hoover**

A business that makes nothing but money is a poor business.

– **Henry Ford**

The first responsibility of a leader is to define reality. The last is to say thank you. In between, the leader is a servant.

– **Max de Pree**

Almost all quality improvement comes via simplification of design, manufacturing... layout, processes, and procedures.

– **Tom Peters**

And while the law of competition may be sometimes hard for the individual, it is best for the race, because it ensures the survival of the fittest in every department.

– **Andrew Carnegie**

Do more than is required. What is the distance between someone who achieves their goals consistently and those who spend their lives and careers merely following? The extra mile.

– **Gary Ryan Blair**

Do not trust people. They are capable of greatness.

– **Stanislaw Lem**

Economic depression cannot be cured by legislative action or executive pronouncement. Economic wounds must be healed by the action of the cells of the economic body – the producers and consumers themselves.

– **Herbert Hoover**

Every day I get up and look through the Forbes list of the richest people in America. If I'm not there, I go to work.

– **Robert Orben**

Most of the important things in the world have been accomplished by people who have kept on trying when there seemed to be no hope at all.

– **Dale Carnegie**

I buy when other people are selling.

– **J Paul Getty**

Every young man would do well to remember that all successful business stands on the foundation of morality.

– **Henry Ward Beecher**

People will buy anything that is 'one to a customer.'

– **Sinclair Lewis**

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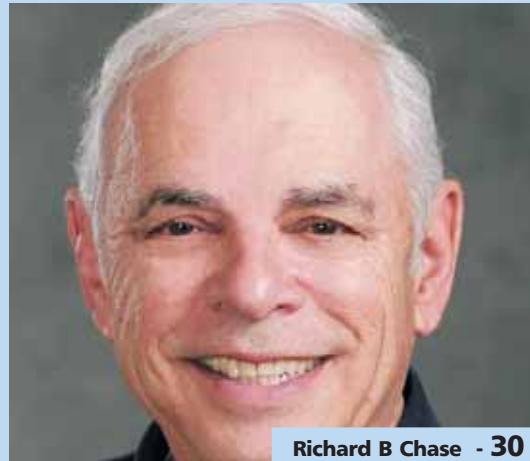
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2010's Highest Paid MBAs

This year the MBA who landed the highest annual base salary – a whopping \$350,000 to start — graduated from the University of Pennsylvania's Wharton School and went into a private equity job with a firm in New York. The starting salary alone was more than three times as much as the median pay – \$110,000 – of the MBA's classmates and 14 times the \$25,000-a-year job the lowest-paid Wharton MBA assumed.

Yet, that highly paid person is hardly unique. MBAs from at least five US business schools – Wharton, Stanford, Chicago, Columbia and Northwestern – report that the highest base salary received by a 2010 graduate was \$300,000 or more. Harvard Business School's top grad this year pulled down a \$250,000 base salary, while the highest paid grad at MIT's Sloan School got \$180,000 in base pay.



At Wharton, the \$350,000 base was not even a record. In 2009, when the nation was in the midst of a severe recession, one Wharton MBA landed a hedge fund job in London with an unprecedented base salary of \$420,000, while another grad from the school gained a \$400,000-a-year post with a private equity firm in New York. Back in frothier times such as 2007, a Wharton MBA took a PE job in London with a base pay of \$392,000 a year.

Yet, as extraordinary as these sums are, they still fail to capture the total compensation these MBA rock stars got. Once you tote up a signing bonus, a guaranteed year-end bonus, and the reimbursement of relocation expenses and tuition, it's relatively easy for a top-flight MBA to earn in excess of half a million dollars a year in compensation in the first year out of business school.

When Wharton published the highest total compensation of its graduates, a practice it ended in 2007, the numbers were even more staggering. In 2004, for example, when the highest reported salary of a Wharton MBA was \$180,000 for a private

equity job, the largest first year total compensation reached \$680,000, a number that in all likelihood included a generous sign-on bonus, a year-end bonus, relocation and tuition reimbursement.

This year, for instance, nearly four out of every 10 Harvard MBAs who went into private equity received "median other guaranteed compensation" of \$155,000 each. Some 9% of Harvard's Class of 2010 took jobs in private equity.

By and large, the highest starting salaries these days are being paid by private equity firms and hedge funds, which recruit far fewer MBAs than the elite consulting firms and investment banking partnerships that buy MBAs by the boatload.

Among the largest private equity players, TPG and KKR are known as the highest paying. Not far behind, according to a recruiter for a top private equity firm, are Blackstone, Bain Capital, Carlyle, Providence and Apollo.

Of course, the very highest paid MBAs tend to be special cases. These graduates bring extraordinary work experience and track records that convince firms that they are worth the money. In private equity, that means hiring grads who already have been in the business – often as high-performing analysts for the same companies that hire them back. Private equity, moreover, is taking a smaller percentage of the top MBAs. At Harvard, private equity and leveraged buyout firms hired just 9% of this year's class, versus 17% of the class in 2008.

A recruiter for a top private equity firm that recruits from only Harvard and Stanford attributes the size of these salary packages to a hiring arms race among the top firms.

"Many of them, private equity firms, take back their former analysts which means those spots are incredibly limited for anyone who hasn't worked in PE before school," says the recruiter.

Often, these recruits already were pulling down big salaries before deciding to go to business school. "Even more shocking is the fact that some of the pre-MBAs were made offers that were easily \$500,000 to \$600,000 over two years," adds the recruiter. "That's right, the 24-year-olds who were



made offers when they were eight months into their two-year analyst programs, just eight months out of college.”

Most business schools try to play these numbers down because they don’t want to raise unrealistic expectations among applicants and students. After all, the average starting pay for MBAs from most elite schools is a third or less of these outsized gains.

The University of Virginia’s Darden School and the University of Michigan’s Ross School only report median and average compensation numbers so that applicants never know how much the lowest or highest-paid graduates earn in base salary. Harvard Business School and Dartmouth’s Tuck School takes the focus off their highest paid grads by reporting only the 75th percentile and 90th percentile numbers.

On the other extreme of the earning spectrum, Wharton reported that the lowest-paid MBA in the class of 2010 received a base salary of \$25,000 a year for a job in the “media and entertainment” industry in the Midwest. At Stanford, the lowest paid MBA this year accepted a health care job paying \$40,000 – less than the lowest paid non-profit job, which paid \$50,000 in base salary.

<http://management.fortune.cnn.com>

The Chicago Climate Club Gets Capped

The Chicago Climate Exchange (CCX) has shut its doors in response to a different sort of climate change – one producing a cold political Northern that blew into the Windy City from the Great Plains and beyond on November 2, 2010.

Consequently, many prominent officers, corporate affiliates and individual shareholders won’t receive the public gifts they had hoped.

CCX was launched in 2003 as a “voluntary pilot agency” that aspired to become the New York Stock Exchange for Carbon-emission trading. Its planning was initiated, thanks to a \$345,000 grant from the Chicago-based Joyce Foundation to Northwestern University’s Kellogg School of Management to study and test the viability of a future carbon-credit market. This transaction occurred when a young community organizer, Barack

Obama, served on the Joyce Foundation’s Board of Directors, along with his mentor, present White House advisor Valerie Jarret. Eventually Joyce Foundation startup contributions for CCX totaled about \$1.1 mn, and its President, Paula DiPerna, later left the organization to become Executive Vice President of CCX.

CCX was cofounded by Richard Sandor, a former research professor at Kellogg when the school received the Joyce grant, along with former Goldman Sachs CEO Hank Paulson. The group got off to a blazing start, with hundreds of companies, including DuPont, Ford and Motorola, rushing in with agreements to buy and sell rights to emit CO₂ above a legally binding quota. At its peak in May 2008, CCX was trading 10 million tons of carbon permits per month, causing the price of carbon offsets to rise from \$1 per ton to a high of \$7.40 in mid-2008. *Time* magazine called Sandor a “hero of the planet.”

The actual operating system for CCX trading was provided by deposed former Fannie Mae head Franklin Raines, who had purchased the technology rights. Raines had become an expert in bundling bad subprime mortgages, and the technology was ideal for bundling worthless air credits.

After the Democrats won the White House, the House and the Senate in 2008, businesses and investors flocked to the exchange, believing Congress would quickly approve the program. And it almost happened. The House of Representatives passed a bill proposed by Democratic Reps. Henry Waxman of California and Ed Markey of Massachusetts, which would have made cap and trade law. But the Senate couldn’t muster the votes, and everything went downhill from there. After the Republican takeover of the House of Representatives, the slide became an avalanche. Investors in CCX, including Sandor and former Vice President Al Gore, sold the exchange to a company involved in commodities trading.

<http://www.forbes.com>



Chicago Climate Exchange



The European Life-Insurance Industry

Charting a New Course to Defeat Market Challenges

The financial crisis has battered the life-insurance industry in Europe, prompting questions about its long-term viability. Capitalizing on future opportunities will require examining costs, reducing complexity, reaching sufficient scale and responding to increased competition from other industries.

Source: www.atkearney.com



The Rise of the Networked Enterprise: Web 2.0 Finds Its Payday

McKinsey's new survey research finds that companies using the Web intensively gain greater market share and higher margins.

Source: McKinsey Global Institute



Missing the Time Mark

% of respondents¹

Redesign was completed on time, given our initial time frame

Redesign took longer than expected

Redesign took shorter than expected

Actual time frames for organizational redesign, from the time the plan was finalized until all changes were fully realized, by initial expectations for timing²

Total, n = 1,248

Less than 3 months, n = 168

Between 3 and 6 months, n = 312

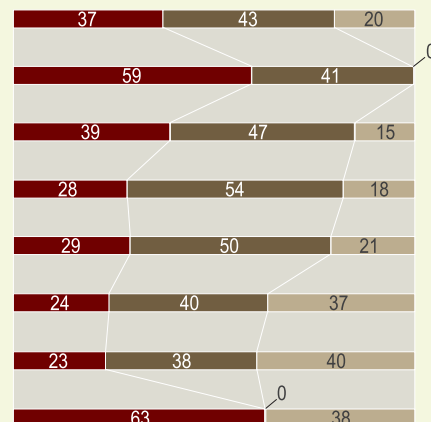
Between 6 and 9 months, n = 196

Between 9 and 12 months, n = 262

Between 12 and 15 months, n = 129

Between 15 and 18 months, n = 80

More than 18 months, n = 101



¹ Respondents who answered "don't know" or "changes are not yet fully implemented" are excluded.

² Figures may not sum to 100%, because of rounding.

Source: McKinsey Global Institute

Reference # 03M-2011-02-01-10



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The Customer Experience-driven Organization

The “Zingerman’s Way” to Great Service

In a world where there’s more and more competition every day for customers’ dollars, great service really does make a difference. Service standards are generally so poor, that when you can actually deliver great service it’s a memorable, if not monumental, event.



Don’t open a shop unless you know how to smile.

— Jewish proverb

In his 1987 classic, *Future Perfect*, Stan Davis talked about the four elements that customers were going to demand from the marketplace in the coming years:

- ◆ Anytime
- ◆ Anyplace
- ◆ Mass Customization
- ◆ No Matter.

“Anytime” refers to the need to work on a around-the-clock basis for many customers. “Anyplace” means that customers should be able to access your services from remote locations. “Mass customization” means

having a core template or two that could be adapted to customer specifications without having to reinvent or remake the entire product from scratch. The example Davis gives is a shirt company that can customize its products. Once the company has your measurements, it can easily customize collars, monogramming, cuff style, etc. In a delicatessen/restaurant business it might be something like some basic concepts which can then be spun into varieties.

Those first three concepts are pretty clear and straightforward. “No Matter” is the most complex, and potentially the most powerful one and is the subject of our discussion here. What Davis is getting at with



that complex phrase is that the distinguishing feature which attracts and retains customers might not be the actual product itself, although that must be excellent. It might be the larger context which surrounds the product. Paraphrasing the old Jewish proverb, it is the shop PLUS smile.

We will use the experience and perspectives of Zingerman's in Ann Arbor as the focal point of our discussion. Zingerman's Delicatessen, started in 1982 by Paul Saginaw and Ari Weinzwieg in a 1300 square foot space in Ann Arbor, Michigan, has grown to become the Zingerman's Community of Businesses, which includes eight different businesses, with a staff strength of over 500 employees and of annual sales over \$37,000,000. Unlike other well-known Ann Arbor-based businesses such as Border's Books and Dominos Pizza, Zingerman's has opted to stay local—Zingerman's Mail Order, Zingerman's Bakehouse, Zingerman's Creamery, Zingerman's Candy Manufactory, Zingerman's Roadhouse, Zingerman's Coffee Company and ZingTrain (its training and consulting business), are all located in the Ann Arbor area. They operate as one organization—the Zingerman's Community of Businesses.

The organization is known all over the country for its exceptionally high quality traditional foods, but equally so for its exceptional standards of service and its focus on creating a positive, participative workplace. Zingerman's has become a destination for food lovers from all over the US, as well as the many thousands of visitors who come to enroll their children at the University of Michigan, to attend University of Michigan sporting events and other events. Zingerman's has gotten a great deal of positive recognition over the last three decades. It has been named one of the top 25 food markets in the world by *Food and Wine*

magazine, featured in the *NY Times*, *Wall St. Journal*, *Bon Appetit*, *Saveur*, *MSNBC*, *PBS* and other top notch press. In 2003, *Inc. Magazine* named Zingerman's "the coolest small company in America." In 1988 Zingerman's found Food Gatherers, a mobile food pantry which collected food from local restaurants and retailers and delivered it those who needed it in the community. In 2009 Food Gatherers delivered over 2,000,000 pounds of food in the Ann Arbor area.

But Zingerman's is more than a shop or series of shops – it is the Zingerman's Experience that is so distinctive – its products plus outstanding customer service. At Zingermans you not only buy cheese, bread, olive oil, you get the other two things as well. The first of these is education. You learn about cheese, oils, and breads. But second, you get something you did not expect – something that exceeds your expectations. That is "no matter" – it is the intangible elements that complete the package and leave you thinking "Now THAT'S what I mean!." It may mean knowing your name; it might be an extra portion of fries; it might be a birthday cupcake with a candle – it might be anything. The anything is driven by a culture that stresses the customer experience, and relentlessly moves to produce it.

So well known for this "no matter" service has Zingerman's become, that it has founded a sidecar business called ZingTrain, which organizes training seminars on the organization's approach to leadership, training, open book finance, and of course, customer service. So well known is its approach that we thought we would let Ari share Zingerman's principles in his own words. What follows is an overview of Zingerman's approach to giving great service, written by Ari.

Giving Great Service

Service is so often discussed these days that, in a sense, I'm reluctant to bring it up. But,

Ari Weinzwieg

is the co-founding partner and CEO of Zingerman's Community of Businesses in Ann Arbor, Michigan. He is the author of Zingerman's Guide to Good Eating, Zingerman's Guide to Better Bacon, Zingerman's Guide to Giving Great Service and his latest book, Zingerman's Guide to Good Leading, Part 1: A Lapsed Anarchist's Approach to Building a Great Business. For more on Zingerman's approach to organizational life, training seminars on service, leadership and other similar subjects see Zingtrain.com.

John Tropman

teaches courses in nonprofit executive leadership at the University of Michigan. He has also taught at the Ross School of Business there, and in the University of Michigan Executive Education Program. He is the author of numerous books, including Making Meetings Work, Managing Ideas in the Creating Organization, and The Total Compensation Solution.



on the other hand, I've long been convinced that giving great service is an essential element of any business' success. So rather than allow the subject to be dismissed with little more than the usual lip service (pun not really intended), I thought I'd take a more in-depth look at it, and share the approach we take to giving and teaching service skills at Zingerman's.

Why Give Great Service?

Well, to state the almost obvious, I believe that service successfully differentiates us in the market place. When you successfully build a reputation for top-notch service, you've given yourself an edge, which your competitors don't have. In a world where there's more and more competition every day for customers' dollars, great service really does make a difference. Service standards are generally so poor, that when you can actually deliver great service it's a memorable, if not monumental, event. And it's an event people remember: we've got customers who still regularly repeat "legendary" stories of times where we delivered some extraordinary experience. Some of these stories are a decade old, yet they tell them the way grandparents smile and share their memories of growing grandchildren. When you calculate the cost of one of these stories vs., the cost of an ad... it's an exceedingly inexpensive way to build solid long-term sales and very loyal customers.

Great service certainly keeps customers coming back. Our experience has consistently been that customers who received a good quality product, but poor service, are far less likely to give a shop a second shot than those who received great service, but sub-standard products. We need to give good service to keep people coming to us and

not to our many competitors. In fact, when it comes right down to it, we don't sell a whole lot that customers can't find in some facsimile form in a dozen different spots within ten miles of us, and with the web, ordering it by post within ten minutes of getting their search engine started up. In our industry – specialty food – in particular, there's really absolutely nothing we sell that anyone actually NEEDS. So ultimately, our service, even more than our food, is what's going to keep our customers loyal over the long haul.

I also believe it's worth giving great service because, in my experience, it helps us hire better people. To my eye, the most service-oriented organizations are almost always those which are the most appealing to work in. When you and your staff are focused on giving the best service, on being courteous and on going the extra mile for your customers, the staff can't help but carry that over to their work with each other. The way staff members treat their peers is probably the biggest single day-to-day contributor to the quality of the workplace. Bigger, in my experience, than any fancy benefits programs, bonus systems or retirement plans you or I might put in place. And in a world where it's increasingly difficult to hire enough great people to do the work that needs to be done, a more enjoyable workplace may be the selling tool we need to attract the best employees out there.

Lastly, let me say that, at Zingerman's we treat service as a bottom line issue, not merely a strategic means to an end. (We use three bottom lines – food, service and finance – not just one.) Although I believe service can contribute significantly to our financial success, neither is it just a convenient tool for making money. In

our organization, the quality of our service is a critical measure of success – if we're going to be and feel successful – we've got to deliver great service. And, I should add, "service" to us includes service to the community and service to each other as coworkers, as well as service to customers.

Now, mind you, there's nothing wrong with using service as a strategic weapon. In fact, I think it's quite sound. Better service is likely to improve your standing in the market place. But my belief is that if you went to most organizations and told them that conclusive new studies showed that consumers no longer cared much about service, it would be dropped like every other trendy technique. I'm not saying that this is bad. It's just different from what we do. Here we're committed to giving caring, exceptional service period. Financial achievement without service success won't cut it for us.

Having great service (and great food) as bottom lines sends a meaningful message to everyone in our organization that we aren't just paying lip service to service. Service performance is significant. Treat it like you would money. Losing a customer through poor service is the equivalent of tossing a bundle of cash in the trash. Deteriorating service standards are the equivalent of falling sales or shrinking gross margins. Realistically, the levels of service we provide will always vary to some degree as will our performance in every other area. But the point we make in everything we do is that we are organizationally committed to offering great service to our guests.

Lastly, I'll say that, to us, it's worth giving great service, quite simply, because it's the right thing to do. When we serve those around us – customers, staff, suppliers, community – we help create a more giving, more caring environment



instead of one in which everyone's just out of themselves.

Zingerman's 3 Steps to Great Service

One of the most interesting issues in the service arena is, why, when everyone you meet is so gung ho about it, is great service so difficult to actually find? Over the years we've accumulated quite a list of reasons, which, in and of themselves, are probably enough for a future column. For the moment, it suffices to say that probably the biggest reason of all is that "great service" is so rarely really defined. Rather, it almost always remains just a nice idea, an uplifting abstraction that everyone supports in theory, while all too often ignoring in practice. And with that in mind, I'm confident that one of the (many, many, many) things we do to try to make it a reality in our businesses is that we've actually defined what great service really means in our organization.

At Zingerman's we've been teaching these three steps to great service for nearly twenty years now. We've taught them to our own staff. We've taught them to consulting clients in fields as diverse as food service, library systems, legal firms, high-tech and health care. In my experience, these three steps to great service, work, and work well, whether you're selling food, professional services, sneakers or snowshoes. You can certainly alter and adjust to turn them into two, or five, or even twelve steps, if you like. The point is to get clear what you mean when you ask people to give great service.

Step #1 Figure Out What The Customer Wants

How do you find out what the customer wants? Certainly, you start by asking them.

That part isn't rocket science. It is, unfortunately, more unusual than you might think. In my experience, most people in most retail businesses start out with a standard, "Hi, can I help you?" To which, most customers give back an equally standard, "No thanks, I'm just looking." In which case, the interaction is probably pretty much over with. This, I can say with certainty, is NOT a good way to find out what a customer would like.

Instead of this typical, if ineffective, scenario, we ask our staff to do, what we call, "engage" our guests; we ask them to spend as much time as they possibly can talking to the customers. Why? Because, the more we talk to our customers, the more we're going to learn about who they are, what they do, how they use our products, what their hopes and fears are. How do you engage them? You just start by asking questions. Not badgering. Just ask friendly, polite questions. Where are they from? Is this the first time they've been in? What are they making for dinner later? To wit, in our Mail Order business, our standard "talk time" with clients who call is consistently two to three times the industry norm, and our desire is to take it higher still.

Once you ask, it's imperative to actually listen to what the client has to say. I know this sounds simple but I'll tell you that finding service providers who actually listen, and listen well, is very unusual. I've taught this service stuff all over the world; every time I ask a group how you find out what a customer would like, the entire room will quickly say, "Ask them!" When I ask "How else?" ... at most two or three people out of a hundred will follow that first response with "Listen." No one ever argues that listening is important – they just aren't very mindful of actually doing

it. Listening is a skill that takes practice – tune in to the details, to the unspoken stuff that will help you better identify customers' needs: learn to read between the lines, note their demeanor (happy, angry, tired, etc.), their dress, their companions (family, out-of-town guests, etc.), their tone of voice, etc. All of these will help you to determine what they would like you to do for them. Body language and tone of voice are keys here. Bottom line? The more information you gather from engaging the guest, the higher the likelihood you'll be able to deliver great service to them.

Now of course this often sounds easier than it actually is. Customers frequently fail to express their needs clearly. Many times the customer doesn't even know what he wants. Worse, there are customers who think they know what they want, but actually want something else. But that's just part of the challenge. In fact, when you get good at it, you'll be able to identify products and services your customer wants but didn't even know existed.

Whatever you do, we ask staff members never to make assumptions in service settings. If they aren't 100% sure they understand what the customer is asking for, we want them to ask for clarification. This simple act will help you eliminate a lot of mistakes. Always read back orders, or repeat back the guests' requests, to make sure you have understood the customer correctly.

Step #2 Get It For Them

This second step also sounds simple, but the reality of life in a busy workplace is that it's very, very difficult to do. Effective delivery of the goods or services a customer has asked for requires real concentration, focus and a commitment to getting it done right.



We break this second step down into three facets –

◆ **Do It Accurately**

Without accuracy in order filling or in delivery of services, little else matters. As we tell our staff, “You can’t eat good intentions for dinner.” Although I’m not going to get into at length here, it’s clear that well-designed systems, consistently and intelligently applied, significantly increase the likelihood of delivering products and services accurately. Double checking orders, order forms that walk staffers through the appropriate questions, realistic time frames for production targets, etc., all will contribute to improved accuracy.

◆ **Do it Politely**

In our experience we have seen that politeness does make a difference in the service world. All those words that our parents taught us to use, like “Please” and “Thank you,” “Sir” and “Ma’am” go a long way towards making a customer feel like he/she got good service. So we ask our staff to use them in all service interactions.

◆ **Do it Enthusiastically**

I learned this third facet, courtesy some nice staffers who taught me that you could say “please” and “thank you” and make it really obvious that you didn’t mean what you were saying. You’ve probably worked with a few of these folks over the years. The point is that just saying the right words isn’t good enough. You have to say them in a way that will get the guest to think you really mean what you’ve said. In fact, we actually take it up a notch higher than that. We teach our staff that we want each customer to leave our interaction feeling like he (the customer) was the best one that happened to be that day.

When I present this material in person I always pause at this point to let this

sink in, so let me do that here too. Inevitably within thirty seconds someone in the room starts to roll their eyes and give me that, “you’ve got to be joking” look. Since I’m trying to be as direct and to the point as possible, I simply say: “I’m not kidding. We want each guest to leave their interaction with you feeling like they were the best thing that happened to you that day.”

Now if people are paying attention at this point, one of them is going to realize pretty quickly that it’s absolutely impossible for every customer you wait on to be the best thing that happened to you that day. And they’re right. It is impossible. But I didn’t say I expected each customer to actually be the best thing that happened to you. Only that I wanted the customer to leave thinking it. The former is impossible. But the latter, while difficult, is very definitely doable.

What this comes down to, if you think it through, often means that we must be very good actors. The reality of life in the service world is that none of us are ever eternally in good moods. Some days, I’m tired. On occasions, I’m downright exhausted. Sometimes the last thing in the world I want to do is wait on another customer. Sometimes I want to run away and hide. But all of those are my problems, not our customers. And if I’m going to give great service to my guests, then I’m going to keep it that way by acting enthusiastic and upbeat in spite of how actually I am feeling in any given moment.

“But,” someone almost always complains, “that’s not honest.”

And, you know, they’re right. It isn’t honest. But, I simply remind them that our customers aren’t paying us to be honest. They’re paying us to get a great experience, a key component of which

is the quality of our service. Now, I’m not saying you should lie to your customers, nor am I suggesting that people who hate giving service are likely to make good service providers provided they can act reasonably well. What I am saying though, is that it’s imperative that we are able to act like we mean it, even though, at any given moment, we may not.

Look. When you go to the theatre to see a play do you really care if the lead actor is in a good mood? Does it really matter to you if the actor and actress are mad at each other? Are you concerned about whether or not the lead actress is bored with her role or having problems at home? I’m not. Although any or all of them may be true, if the production is well done, none of those things even enter my mind. I paid my money and all I want is to see a good show, regardless of the personal struggles the actors are going through. It’s exactly the same story when our customers come to us; they too want to see a good show.

So how enthusiastic do we want our staff to be? I just tell people that, if they’re not sure if they’ve been enthusiastic enough, then they probably haven’t been. And that, if they’d like assistance, I’ll be happy to come and give constructive criticism on their performance.

Can a service provider be “too enthusiastic?” Sure. But honestly it happens about five times a year at the most. One of our Natural Laws of Business is that “success gets you better problems.” Within which context I can tell you that I’d far prefer a few complaints on staff members being too enthusiastic than a lot of complaints about service being staid. To that end, I have a standing offer for staff members that if we get a complaint that they were too enthusiastic I will happily treat them



to lunch. It hardly ever happens, but if and when it does, I'm honestly happy to buy them a good meal. I figure overly enthusiastic employees are about as good a problem as one can get!

Step #3 Go The Extra Mile!

In most service settings the first two steps would add up to an exceptional service experience. If, your server figured out what you wanted, and then went ahead and got it for you – accurately, politely and enthusiastically – you'd probably be pretty pleased.

But the way I see it, those first two steps make up the bare minimum we, as service providers, can get away with. If we do less than steps one and two we're ripping off our customers. See, they're paying real money for our products. If we deliver less than what they want, with subpar politeness and enthusiasm, I say we're falling short.

See, we don't have a sign up on the wall that says,

"Ari's First Day, All Sandwiches 20% Off!"

Nor do we post notices like,

"Short Staffed Today, Everything In The Store 25% Off."

We charge the same price whether we're short staffed, short-sighted, tired, under-trained, crabby or any of the hundreds of other reasonable things that can get in the way of delivering great service. So, in our view, steps one and two add up to merely adequate service. To give great service, we have to deliver on this third step – we go the extra mile and do something for the guests that they didn't ask us to do.

There are countless "little" ways we can go the extra mile for our customers, the sort of things that make our customers leave their interactions with

us thinking, "Wow! That was really great." I'm sure you can probably come up with plenty in your work as well. For us going the extra mile can be as simple as:

- ◆ Give the customer a taste of a product they're curious about. We even do this through our Mail Order – we'll often ship tastes to out of towners who were intrigued about a new offering that they weren't sure they were going to like.
- ◆ Send the customer a hand written thank you note a couple days after the order went out.
- ◆ Call a customer back a few days later to follow on the effectiveness of your work.
- ◆ Add in a little "sample" of something extra to an order.
- ◆ Carry his/her bag to the car.
- ◆ Give the customer's kid a taste of cookie to keep them calm during the shopping experience.
- ◆ Give a guest a shopping bag to consolidate purchases they made elsewhere.

This is simple stuff. But it's stuff that sets us apart from our countless competitors, that keeps our customers coming back, when the reality of life in the modern business world is that they can get some reasonable facsimile of what we have to offer in hundreds of other places within a few miles of our store.

Physically, going the extra mile like this is usually the least demanding part of the service process. But mentally it's often the most challenging because we have to think of it. If the guest asks for it, it doesn't count any more – then we just have to go back to step one.

Culture Check

Perhaps the best unscientific way I know to measure whether or not you've

successfully incorporated great service into your work is to look at the culture of your organization. I'm not talking about your mission statement or your staff handbook. I'm referring to what really happens when you're not around to see it. What do the folks say who work with you about service to new staff members coming on board? Do they tell their friends and family what great service means to them? Do they discuss service quality over lunch? This is one place that I like to hear complaining: when I hear our staff members griping about the quality of the service they've received elsewhere, it tells me that they've really internalized our high service standards.

In fact, one of the most rewarding moments of my service career was the day that I heard a sixteen year old staff member telling a new employee who was almost twice her age how to give great service "the Zingerman's way."

Now, let me finish by saying that I don't doubt that you, yourself, may already be living these three steps to great service every day. Many leaders in service-oriented organizations intuitively give great service without even thinking about it. The problem in most service organizations is not that leaders don't personally know how to give great service themselves. Rather, it's that we aren't the ones who are waiting on most of our customers – our staff is. And for most staff members, the stuff that's in these 'Three Steps to Great Service' is not obvious, it's not intuitive, and in many cases, it's simply not happening. Our job is to make sure it is. ☺

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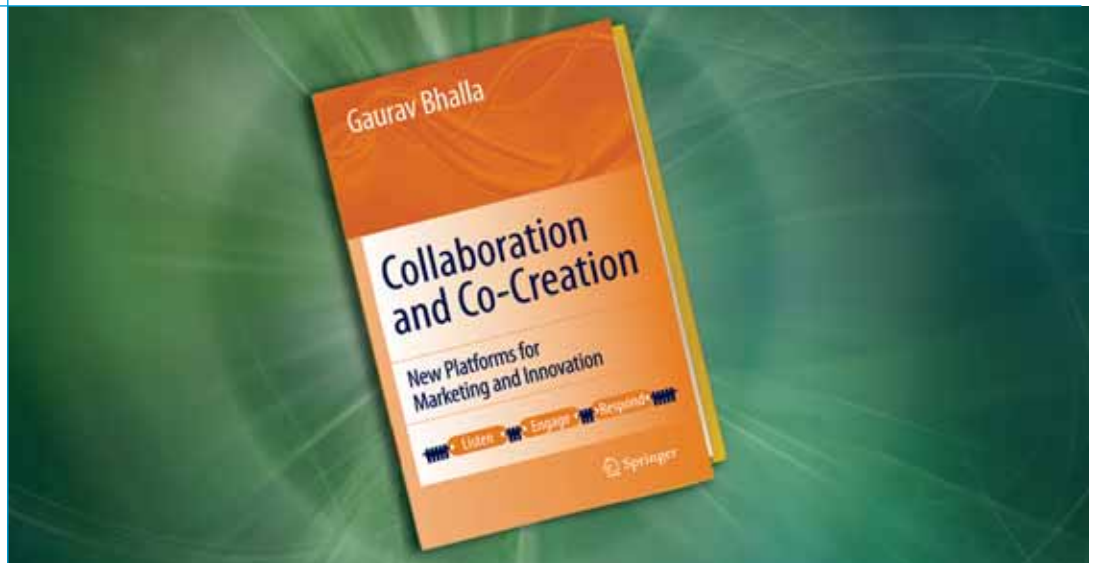
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Collaboration and Co-Creation

A Framework for Implementation

The article presents and discusses a framework of four processes and competencies for designing and implementing co-creation programs. First, companies need to listen to their customers. Second, they need to meaningfully engage their customers. Third, they need to respond externally and create vehicles for co-creating value with customers. Finally, companies need to respond internally, by investing in co-creation structures and processes. These four elements working in concert create the capability of customer collaboration and co-creation in companies.



The Phoenix Suns may not have the most impressive record on the basketball court, but they are outpacing their competition in building relationships with their fans. The Suns, a National Basketball Association (NBA) team based in Phoenix, Arizona, do not have an NBA title yet, though they have had their spotlight moments. The team did exceptionally well in the 2004-05 season. During that period, which came to be known as the third greatest turnaround in League history, the team had the best scoring record: 62-20. In the same season, one of their key players, Steve Nash, won the Most Valuable Player award. The team also boasts of a number of Hall-of-Famers, most notably Charles Barkley.

There is a reason why NBA teams, including the Suns, are obsessed with winning titles and awards. Professional sports teams need large and loyal fan following to survive and there is no greater insurance to retaining fan loyalty and commitment than winning. But while “winning is everything” may be a time-tested Hollywood formula, professional sports teams like the Suns work hard both on and off the court. Their on-court performance is what fills basketball arenas on game day. Off the court, they work just as hard to earn the attention and praise of their fans by supporting social causes and participating in community activities, such as teen



development, education, and personal health.¹ While the Suns have yet to win a championship, just listen to their fans talk, and feel their passion and enthusiasm, and you will think the team has been undefeated for the past several years. The Suns have one of the strongest fan following in the League. Their home games are perennially sold out. Based on our conversations with trailblazers like Amy Martin, the Suns' former Digital Marketing Director, no tickets are available through normal box office channels for the next several years.²

The character and strength of the team's fan following is mirrored even in the current ownership structure of the Suns. Robert Saver, a lifelong team fan and a banking entrepreneur, led the investment group that purchased the team in 2007. Steve Kerr, a seasoned basketball NBA champion, is also part of the owner manager team. In short, the owners have an emotional and financial investment in the club that goes beyond the officialdom of job titles. Their ability to relate to the team and the fans is rooted in who they are as individuals and in their love for the game. Their involvement with the team's affairs extends beyond on-court involvement demanded by their organizational roles. Both Saver and Kerr are well known in Arizona as strong community leaders who are deeply involved in social and humanitarian initiatives, like education.

Based on fan feedback and their personal observations, the management team recognizes that the playing arena is not enough to satisfy fan hunger for contact with the game, the team, and its stars. They have noticed and heard the surge in fan voices, on the Internet and in traditional

media, demanding greater access to the team, to the locker rooms, and to their favorite stars, beyond what they traditionally get on game days. It was against this backdrop that the Phoenix Suns decided to launch their first major fan collaboration effort to co-create and enrich the total fan experience with the Suns.

Planet Orange: Creating Value with Fans

The Suns' fan collaboration effort goes by the name Planet Orange. The name was deliberately chosen to create a world where all inhabitants share one common trait – they are all fiery, fervent, and forever Suns' fans! Within this world, fans are not merely members or fans, they are citizens. Planet Orange is an online community whose citizens create their own personal profile pages for blogging, photo uploads, and video streaming. In addition to interacting with the Suns, the citizens interact freely with one another and create their own preferred subgroups, such as Suns in the Military, Suns in Yuma, and Suns' Fans Down Under. Citizens of Planet Orange are both fun-loving and responsible – they even police one another's content and are quick to flag content if considered offensive or inappropriate. Planet Orange also extends fan experience beyond basketball through its connections with science, education, and community activities.

Planet Orange was not created as a result of a few marketing executives kicking ideas around the coffee machine. The idea was born by interacting with fans. When Sun's digital marketing team was observing and listening to basketball fan conversations in online social networks, they stumbled upon a video clip about the Suns on YouTube, which a fan had

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¹ Website: National Basketball Association. (2009). 2008-09 NBA Community Report: NBA Cares. Retrieved February 2, 2010, from <http://www.nba.com/2009/allstar2009/01/18/nba.cares/index.html>

² Information for this section was gathered through conversations and conference calls with Amy Martin, Phoenix Suns, Former Digital Marketing Director.



created. The video was fun to watch and had acquired a significant following. A large number of the Suns' fans had viewed the video and posted their comments and reactions to the content.

The big bang had occurred. The YouTube video led to a serious exploration of an online community for co-creating and enriching fan experience. Pros, cons, and risks were all discussed. The digital marketing team reached out to the creator of the YouTube video (and other fans who had interacted with the video) for inputs in refining their own thinking. Early versions of Planet Orange were tested among some of the Suns' most loyal fans: its employees. The involvement of the employees continues until today, and as citizens, they are just as prominent and active as the nonemployee citizens. Fully satisfied as to the merits and its features, Planet Orange

was launched with due fanfare and a video contest. In less than one year, Planet Orange had over 10,000 active citizens and even a 'king'; the creator of the original YouTube video appointed himself as the Planet Orange King!

Co-creating fan experience has produced enormous customer equity for the Suns, as evidenced by the continuing growth in fan support, and sold-out attendances (Exhibit I). As a core business practice in large companies, co-creation is still new, and best practices are still emerging. However, the Suns' fan experience co-creation case presents several elements that can be labeled as best practice and are worthy of emulation. The case also shares qualities that have emerged from our own consulting work in this space. The rest of the article presents and discusses a framework of

processes and competencies for designing and implementing co-creation programs. It also discusses an important prerequisite to embracing, effectively implementing, and reaping rewards from co-creation programs: a shift in management's mindset. Without that shift, the promise of collaboration and co-creation is likely to ring hollow, leaving customers unimpressed and disengaged.

Framework for Building a Co-Creation Capability

Four interrelated components must work together to help a company build a core co-creation capability, as illustrated in Exhibit II. First, companies and organizations need to listen to their customers, as the Suns' managers did in monitoring online discussions among fans. Second, they need to meaningfully engage their customers, as the Suns did by creating Planet Orange. Third, they need to respond externally and create vehicles for co-creating value with customers: the Suns let the creative energy of its fans run the new planet, even to the extent of celebrating the coronation of a self-appointed 'king.' Finally, companies need to respond internally, by investing in co-creation structures and processes, as the Suns did in working with a core group of zealous fans and employees to build, test, and roll out the site to the broader fan community. These four elements working in concert create the capability of customer collaboration and co-creation in companies. Each of these components will be discussed in more detail below.

Listen

Today's networked consumers are involved in interactions with one another, with media, and with companies in a variety

Exhibit I: Planet Orange Fan Experiences

Planet Orange is where the Suns and their fans co-create fun and unique fan experiences, and celebrate the bond that exists between the fans and the franchise. The invitation on the planet's website reads: The Planet is what you make it. So log in now and become a citizen.

Two standout examples of co-created experiences are:

◆ All Night Sing Along

Imagine famous basketball players like Grant Hill and Amare Stoudemire, riding in the team bus to the next city on their itinerary, after a grueling ball game. It's late, the players are tired, and all that they probably want is a comfortable bed to stretch their long legs, or an ice-bath to numb their aching muscles. But no bed or tub for these guys. Napping during the bus ride is an option; so is talking on the cell phone. But wait; there is an even better option to pass time. How about making a video of the players singing an old song and sharing it with their fans on Planet Orange and YouTube? That is exactly what Steve Nash and Leandro Barbosa did. The Phoenix Suns belted out Lionel Richie's 1983 hit "All Night Long," and shared their video creation with Suns' fans. Hundreds of Planet Orange citizens commented on the clip – *hilarious, so flipping funny, what a hoot.**

◆ Planet Orange Fan Video Challenge

Most sports fans would agree that picking a favorite team happens at an early age. How early, you ask? How about two years! Yes, the winner of the Suns' Fan Video Challenge, and perhaps the Suns' youngest ardent fan is two years old. This toddler watches Suns' games at home on her large TV screen and celebrates each time the team scores by clapping and jumping with joy. Steve Nash is her favorite, and his baskets are celebrated with even more frenzy. The Suns organized a video challenge during the 2009-10 season, so fans could showcase the passion they typically exhibit in their living rooms. As a way of saying thanks, the franchise celebrated fan enthusiasm by airing their creations on giant screens at the US Airways Center, Sun's home court. The video featuring the two-year-old toddler – The World's Biggest Little Suns' Fan – received rave reviews, helping it to win the challenge.**

* Website: Planet Orange (November 19, 2009). *Suns Sing All Night Long*. Retrieved February 13, 2010, from http://suns.planetorange.net/_Suns-Sing-All-Night-Long/video/869234/9952.html

** Website: Planet Orange. (2009, October). Press release. Retrieved February 13, 2010, from http://www.nba.com/suns/fans/planet_orange_promotion.html



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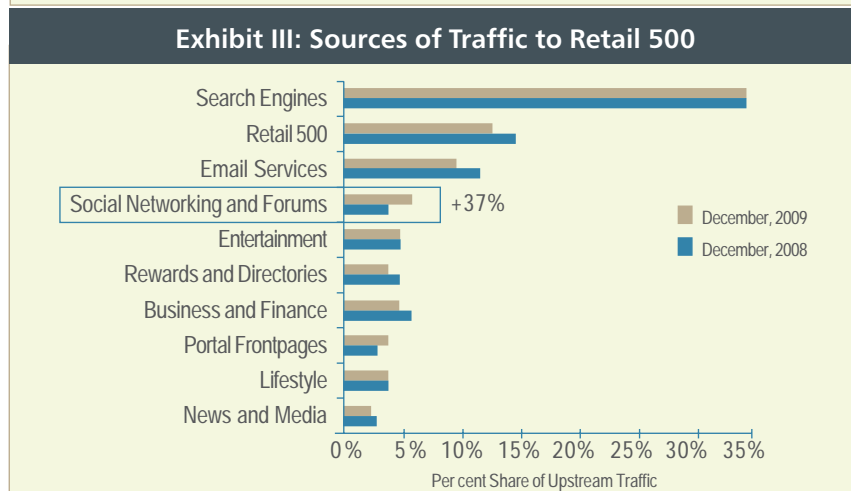
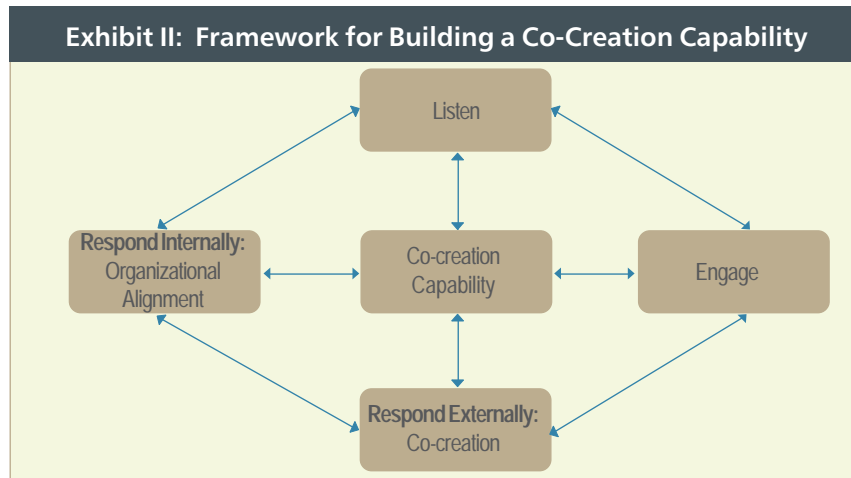
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of public forums. Many of these interactions take the form of wide-ranging conversations, rich in both content and sentiment. According to Technorati's 2008 survey, 'The State of the Blogosphere,' the leading reasons for creating and reading blogs are:³

- ◆ Sharing consumption experiences
- ◆ Obtaining information and providing opinion on brands, and
- ◆ Providing referrals.

Fifty percent of adults who use social networks like Facebook and MySpace regularly tell friends about the products they purchase. A 2007 survey from Hitwise observed that MySpace sends more traffic to retail websites than Yahoo and MSN search engines combined. More recently, a 2010 survey by the company Hitwise

confirmed continuation of that trend. It revealed a 37% increase in traffic driven to Retail 500 stores by social networking sites and forums in 2009 compared to 2008, as depicted in Exhibit III.⁴

Buzzillions.com is an active platform for sharing and listening. Companies share information about their products and in turn get to listen to what thousands of consumers are saying about their products. Buzzillions.com collects thousands of consumer reviews a day from across 2,800

websites. This model is an effective way for companies like Toys 'R' Us, Staples, and Zappos to stay in touch with customer conversations involving their products and services.

Buzzillions.com offers valuable benefits to all parties engaged in sharing and listening:

- ◆ Companies benefit, because they get unadulterated feedback on their products.
- ◆ Consumers benefit from peer-to-peer reviews and experiences, which they trust more than what the company says about its own products.
- ◆ Retailers' websites get more traffic and a higher proportion of qualified customers focused on making a purchase.

Listening takes on even greater importance in situations where it may not be immediately clear how consumers will vote with their consumption dollars. A good example is current conversations and purchase behaviors concerning innovative green products. In terms of sentiment, consumers may send one signal: namely that they have unequivocal commitment to engaging in pro-green behaviors. However, when it comes to future purchase behavior, they may send the opposite signal. A McKinsey survey of over 8,000 consumers in several developed countries reported that 87% of consumers worry about the impact of their purchases on the environment, but less than 33% of the consumers are currently buying, or intend to buy, green products.⁵

³ Madasky M & Arenberg P (2008). State of the Blogosphere. *Technorati*. Retrieved November 19, 2010, from <http://technorati.com/blogging/feature/state-of-the-blogosphere-2008/>

⁴ Li C (2007). Consumers use social networks. *Forrester Report*. 3-6. Retrieved December 12, 2008, from http://www.forrester.com/rb/Research/how_consumers_use_social_networks/q/id/41626/t/2; Hong, L. (2008). Top 10 things retailers should know about social networks and what to do. *Gartner, Inc.* 3. Retrieved December 13, 2008, from http://www.gartner.com/DisplayDocument?ref=g_search&id=633007; Dougherty, H. (2010). Social network impact for retailers. *Hitwise Intelligence*. Retrieved February 12, 2010, from http://weblogs.hitwise.com/heather-dougherty/2010/01/social_network_impact_for_reta.html

⁵ Bonini SMJ & Oppenheim J (2008, October 7) Helping Green Products Grow. *The McKinsey Quarterly*. Retrieved November 7, 2008, from http://www.mckinseyquarterly.com/Help_green_products_grow_2231



Engage

Companies engage customers to provoke conversations, to elicit responses and reactions, and to generate fresh insight by disturbing the current equilibrium. In all cases, engagement creates new patterns of interactions and relationships between a company and its customers. Operating through dialogue and conversations, engagement seeks to tap into ecosystems of relationships, such as:

- ◆ Self with self
- ◆ Self with others
- ◆ Self with causes, and
- ◆ Self with brand and/or company.

Timberland developed such an engagement ecosystem by tapping Facebook members in a viral campaign to help translate their concern for the environment into concrete action. Following a highly successful launch of their Earthkeeper boot brand – a boot for people to enjoy the outdoors made completely from recycled plastic bottles and rubber tires – Timberland decided to extend this concern for the environment through an Earthkeeper community.

According to Jeff Swartz, Timberland CEO, the purpose of the Earthkeepers movement is to inspire 1 million consumers to take action to lighten their environmental footprint by planting trees. Through their own website and videos posted on YouTube, Timberland has been able to inspire and provoke the Earthkeepers community to create virtual forests and dedicate trees to loved ones. One hundred thousand community members sent 1,750,000 seeds in a four-month period for trees to be planted. By the end of 2008, the community, through its collective action, planted over 250 acres of trees in the Horquín Desert in Mongolia.⁶

Respond Externally: Co-Creation

Co-creation rarely happens in one large spontaneous step. That's because it is driven by consumer needs and preferences, rather than rigid engineering specifications. Since consumer needs and preferences are fluid and malleable, several iterations of exploration and development are usually needed before companies and customers arrive at a finished value proposition. In order to shorten the development cycle and time to market, companies adopt a variety of tactics to empower customers and improve the productivity of the co-creation effort. Examples include: selecting high-value customers to collaborate with, such as lead users, and experimenting with tool kits and prototypes to empower customers and involve them earlier in the innovation process.

The Search Division of Yahoo is a firm believer in experimenting to co-create. In a manner of speaking, the division is one big co-creation lab, since many of the employees who work there are among the heaviest users of the service. Their co-creation efforts revolve around engaging the user community (both employees and nonemployees) in a series of prototyping and experimentation exercises, in order to reduce development time and time to market. For example, Yahoo's search application development platform, SearchMonkey, allows developers and website owners to use a variety of embedded tools to build customized applications. Further, it offers developers a chance to collaborate, share,

and build upon one another's suggestions. Both company and developers benefit from the co-creation effort. Yahoo benefits because it can now optimize its portfolio, offering only those tools and applications that are most relevant and valuable to its search customers. Developers benefit because now they have more effective tools to design applications that deliver optimal user experience, such as making search results more visually appealing and driving more relevant traffic to their sites.⁷

The South Beach line of products developed by Kraft, one of the largest food and beverage companies in the world, is a good example of how co-creation creates incremental value for both customers and the company. Before Kraft aligned itself with the South Beach Diet brand, it reached out to its community of consumers for their insights to avoid an expensive and lengthy national product roll out. Using insights provided by the community on product features, benefits, and emotional outcomes valued most, Kraft was able to co-create 48 product concepts that had the potential to meet consumers' needs. Through a series of quick experiments with the user community, Kraft zeroed in on a few winning concepts in categories such as cereal, meal replacement bars, refrigerated sandwich wraps, frozen entrees, and frozen pizzas. Within six months after the launch date, Kraft's new line of South Beach foods had generated more than \$100 mn in sales.⁸

⁶ Website: YouTube. (2008). About Earthkeepers. Retrieved October 30, 2008, from <http://www.youtube.com/earthkeepers>

⁷ Website: Yahoo. (2008). Search Monkey – How Does it Work. Yahoo Developer Network. Retrieved February 13, 2010, from <http://developer.yahoo.com/searchmonkey/>; Perez, J.C. (2008, May 5). Yahoo Search Monkey Opens to all Developers. PC World. Retrieved November, 2008, from http://www.pcworld.com/article/145941/yahoo_search_monkey_opens_to_all_developers.html

⁸ Customers co-create 48 products they want to buy. (2008, October 21). In NewCommCollaborative. Retrieved November 7, 2008, from <http://www.newcommreview.com/?tag=online-communities>.



Respond Internally: Organizational Alignment

Successful implementation of collaboration and co-creation programs requires more than just intentions, no matter how honest. It requires an accompanying investment in organizational culture, structure, and processes. Without these enabling factors, co-creating value with customers is likely to remain stuck in the starting blocks.

Whatever Dell's problems may have been with its computers and its old business model, they are in the past. The company has blown the competition away in collaborating with its customers and co-creating product and service experiences through its innovation site, IdeaStorm. The company was alerted to serious customer service problems indirectly, by media articles, such as *BusinessWeek's* "Hanging Up on Dell," and directly, by a raging torrent of customer complaints. Wait times were horrendous; some customers would be on hold for as long as 45 minutes when trying to reach customer support. Even worse, after finally connecting with a customer service representative, it was not uncommon to be transferred among multiple customer service technicians because the first, second, and even third technician was unable to solve the problem.⁹

Rather than hiding from the market's anger, Dell used the negative energy directed against it to co-create a business transformation program. The company created IdeaStorm, an online community designed to co-create a better product and service experience. By responding and following through with implementation suggestions generated within IdeaStorm, Dell has redefined customer relationship

management and set a new standard for responsiveness. The company did not just celebrate insights, suggestions, and ideas; it organized itself around these inputs and implemented concrete initiatives. It is difficult to say to what extent Michael Dell's personal involvement helped – he is reported to regularly read comments posted on the site – but the numbers speak for themselves. Based on data regularly published on the website, by early 2010, the community had submitted over 13,000 ideas, inspiring Dell to implement over 400 unique initiatives.¹⁰

A Shift in Mindset

The framework described above and the resulting customer collaboration capability for co-creating value are at odds with the existing value-creation beliefs in companies. The emerging platforms of customer collaboration and co-creation have an uneasy relationship with existing mental maps of managers that favor traditional company-centric methods of value-creation. Charlene Li and Josh Bernoff in *Groundswell* and CK Prahalad and V Ramaswamy in *The Future of Competition* also discuss how organizations and management teams are threatened by customers' demands for co-creation.¹¹ Such teams perceive these demands to be a threat that can weaken and undermine a company's control of its transactions with consumers.

Exhibit IV: Three Prerequisites for a New Mindset

- ◆ Authenticity
- ◆ Conviction
- ◆ Flexibility

Consequently, developing and implementing a customer collaboration capability is not merely a matter of implementing the framework recommended in Exhibit IV; it also requires a shift in management's mindset. Exhibit II and the discussion that follows present three prerequisites for a new mindset that can potentially facilitate migration from traditional models of value-creation, where customers are mere passive recipients of value created for them by the company, to newer models, where customers are active participants in the value-creation process.

Authenticity

Companies have agendas; customers have agendas, too. The difference is that customer agendas have, for the most part, been transparent and out in the open. For example, customers want safe toys, easy-to-use, plug-and-play products, and hassle free customer service. Company agendas, on the other hand, are not always unambiguous or easy to understand. Several authors have stressed the importance of customer service in helping the company put its best face forward.¹² Yet, behind-the-scenes agendas related to cost cutting, reduction in training

⁹ Information Technology (2005, October 10). Hanging up on Dell? *BusinessWeek*. 3954,80-81. Retrieved November 2, 2008, from [http://www.businessweek.com/magazine/con-tent/05_4_1/b3954102.htm](http://www.businessweek.com/magazine/con-tent/05_4_1/b3954102.htm?chan=tc)

¹⁰ Weiss TR (2007). Dell to Offer Ubuntu in Linux on PCs, Laptops. In *Computer World*. Retrieved October 8, 2008, from http://www.pcworld.com/businesscenter/article/131447/dell_to_offer_ubuntu_linux_on_pcs_laptops.html

¹¹ Li C & Bernoff J (2008). *Groundswell: Winning in a World Transformed by Social Technologies*. Boston: Harvard Business Press; Prahalad CK & Ramaswamy V (2004). *The Future of Competition: Co-Creating Unique Value with Customers*. Boston: Harvard Business School Press.

¹² Lucas R (2008). *Customer Service Skills for Success*. McGraw-Hill: New York; Rayport, J. & Jaworski, B. (2008). *Best Face Forward: Why Companies Must Improve Their Service Interfaces With Customers*. Boston: Harvard Business Press.

dollars, and a freeze on hiring new talent are not in sync with the company's stated intentions of providing hassle free service. It is not always clear to customers where, on a continuum of affordable service to uncompromising service, companies reside on a regular basis.

Authenticity, as we conceptualize it, is part ethics, part transparency, and part trust. It is an orientation, or intent, that a company brings to its efforts to collaborate and co-create value with its customers. Over time, if reinforced by the right actions, it gets transformed into being a recognizable company trait. It is recognizable not through formal analysis, but through the right-brain emotional response of consumers. An authentic Patek Philippe sitting out of reach in Tiffany & Co., on Fifth Avenue evokes a very different right-brain response than a knock-off version selling right outside its doors on the pavement.

Few companies wear the badge of authenticity as well as Johnson & Johnson. Its recent efforts in establishing relationships with customers through its award-winning global community BabyCenter reinforce that perception. Tina Sharkey, the Chairman and Global President for BabyCenter, points out that "Moms come to BabyCenter seeking trusted and personalized information."¹³ They get that and more. The most prominent items on the site's landing page are consumer-centric tools such as due date calculators, videos allowing a peek inside the womb, and health-related content checked and previewed by a Medical Advisory Board. Most important is the connection moms make with a community of other parents. Through this community, parents share ideas, seek guidance on deeply personal issues, and discuss the joys and challenges of raising children.

Achieving authenticity is impossible if every interaction with the customer involves an element of commerce. Consequently, participation in this community is not conditional on purchase. Though the site links to a BabyCenter store, all moms visiting Babycenter.com are secure in the knowledge that no attempt will be made by Johnson & Johnson to unilaterally further its own sales agenda by using inputs from the site. By focusing on long-term connections with consumers, Johnson & Johnson has elevated its relationship from being just a brand of baby products to being a trusted advisor and a source of valuable information on how to raise healthy and happy children.

Flexibility

Today's customers have a definite point of view on a number of issues, ranging from T-shirt designs (Threadless), nutritional value of various foods (Acai fruit berry), and appropriateness of diets (South Beach Diet),¹⁴ to issues related to child labor and living conditions of workers in Nike and Levi's factories in Asia. Today's customers also have a large number of opportunities to voice their opinions, making it easier for them to draw attention to conflicting issues and to companies resisting honest customer objections.

Flexibility implies a greater willingness on the part of the company to accommodate opposing points of view. There is no rule that says companies and customers must agree all the time. What is absolutely essential, though, is to

demonstrate that the company is aware of opposing opinions, that it is listening, and having listened that it is willing to reconsider its own beliefs, values, and actions (Exhibit V).

Consumer activists first brought Nike's attention to child labor in its Asian shoe-producing factories. Nike admitted its blunder, acknowledging that it 'blew it' by employing children in its Asian factories. Nike did not close down its Asian factories, but instituted significantly more stringent age monitoring and hiring controls, which it broadcast widely in its corporate responsibility reports. The activists have yet to give Nike a passing grade, but the market seems to have accepted Nike's accommodation and self-policing.

Starbucks, too, felt the heat from activists. Fair Trade International made strong demands for Starbucks to sell certified fair trade coffee. Initially, the company resisted, as it believed the coffee was below coffee roasters' quality standards. Following a series of protests attacking Starbucks of social irresponsibility, the company relented. Starbucks collaborated with nongovernmental organizations (NGOs) to co-create value for both the growers and its consumers by creating a line of 'fair trade' products.

Conviction

Nothing sabotages customer collaboration and co-creation initiatives faster than lack of follow-through. Symbolism – mere talk not backed by sincere action – is likely to be penalized by today's customers, who value follow-through and transparency. Lack of

¹³ Quinton B (2008, July 15). BabyCenter delivers parenting social network. In *Pro Mom Magazine*. Retrieved October 5, 2008, from http://promomagazine.com/socialmedia/babycenter_delivers_parenting_social_network_0715/index.html

¹⁴ Williams R; Spencer J; & Rice-Evans C (2004, April 1). "Flavonoids: Antioxidants or Signaling Molecules?" *Free Radical Biology and Medicine*, pp 838-849; Agatston. A. (2003). *The South Beach Diet*. Emmanus: Rodale Books.



Exhibit V: Fish2Fork: Flexibility for Sustainability

Imagine an ocean without fish! In less than 40 years, this will be the future if commercial fisheries do not change the way they catch fish, restaurants do not take endangered fish off their menu, and consumers do not change their eating habits. This is the message of *End of the Line*, the first major documentary revealing the impact of overfishing.

Based on Charles Clover's highly acclaimed book, *The End of the Line: How Overfishing Is Changing the World and What We Eat*, the documentary explores and examines firsthand the impact of current global fishing policies, and consumers' fish-eating preferences.* Filmed over two years across the world – from the Straits of Gibraltar to the coasts of Senegal, from Alaska to the Tokyo fish market – it features top scientists, indigenous fishermen, and fisheries enforcement officials. The film confronts critical issues, such as the imminent extinction of bluefin tuna brought on by increasing western demand for sushi, and the profound implications of a world with no fish.

This stark realization has spawned several major collaboration efforts.

- ◆ M & J Seafoods, the UK's largest independent seafood supplier to restaurants, hotels, pubs, schools, and wholesalers, actively campaigns to promote sustainable fishing. It will not buy or supply fish like orange roughy, shark, and bluefin tuna, European eel, and North Atlantic halibut.
- ◆ Food retailers like Whole Foods are altering their fish retailing policies. While they continue to sell farm-raised fish, they are aggressively pushing sustainable aquaculture policies on fish farms that supply them with their fish.

The most notable grassroots collaboration initiative to have emerged to involve everyday customers is the fish2fork rating system. It is designed to inform customers whether a restaurant is doing all it can to serve sustainable seafood and reduce its impact on the world's oceans at a time when overfishing is of serious concern. Restaurants are scored for the Sustainability of the fish on their menu using a blue fish-red fish scale. A blue fish rating signifies environmentally responsible menus, and a red fish rating, the opposite (the highest rating is five blue fish, and the lowest is five red fish). The fish2fork initiative also encourages everyday customers to download fish eating guides published online by objective watchdogs like Monterey Bay Aquarium's Seafood Watch in the United States, and Marine Conservation Society in the UK.

* Clover C (2006). *The End of the Line: How Overfishing Is Changing the World and What We Eat*. New York, NY: New Press.

conviction will show, no matter how hard a company tries to disguise it, and will weaken the market's willingness to engage in any meaningful way with the company.

Wal-Mart's attempt at engaging teens in their community, The Hub, lasted only 10 weeks.¹⁵ For social networks to be successful, they need to provide users with freedom and space. Wal-Mart did neither. Rather than treating the community as a different way of doing business, they used it as another avenue for implementing traditional merchandising and promotion programs. Teens had to get parental approval before registering; community members were flooded with advertisements and subjected to promotional programs featuring fake models, instead of real people – all of

which actually led to the teens disengaging with Wal-Mart. Critics conducting postmortems were in strong agreement that Wal-Mart seemed to have been driven more by the need to keep up with the Joneses, mimicking what other big corporations were doing, rather than out of a sense of conviction about the importance of listening to and interacting with customers.

Contrast this with the example of WePC.com, a joint venture between computer hardware manufacturer ASUS and chipmaker Intel. The goal of the project is to build a community-designed personal computer. The conviction and commitment of the sponsors is plainly visible to all potential collaborators. Visitors to the site are encouraged to dream – submit ideas for development

on Notebook, Netbook, and Gamer PCs – vote on ideas submitted by others, and participate in ongoing discussions, or create their own discussion. The site tracks and broadcasts progress on ideas selected in a very objective and transparent way. It is clear that the sponsors are serious about generating ideas and following through by developing them. Rather than policing the community, the sponsors see their role as facilitators, igniting ideas and shaping conversations among leading online voices of designers, engineers, hardware geeks, and gamers.

This article opened with a case study, demonstrating how the Phoenix Suns use elements of the Listen-Engage-Respond framework to co-create unique fan experiences, both on and off the basketball court. Now that the framework has been formally presented, it would be beneficial to review another case study that demonstrates how the process of co-creation transforms marketing and innovation when implemented correctly. When all the elements of the Listen-Engage-Respond framework are implemented in a synchronized and systematic manner, the result is nothing short of a co-creation master class.

Marmite XO: A Co-Creation Classic

Unilever's Marmite is a 100% vegetarian product made from yeast extract, which is a byproduct of brewing beer. A UK brand, it is most commonly consumed as a savory spread on toast. Over 100 years old, Marmite is a cult brand. People either love it or hate it. The brand embraces this fact unabashedly and places it at the

¹⁵ Crump JW (December 5, 2008). A look at failed social networks. The Bivings Report. Retrieved January 8, 2009, from <http://www.bivingsreport.com/2008/a-look-at-failed-social-networks/>



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heart of everything it does. In March 2010, Unilever launched an extra-mature variety of Marmite, called Marmite XO, for the brand's most ardent lovers. Marmite XO is made from yeast sourced from four specially selected breweries, and matured four times longer to give the consumer a rich, full-bodied, and intense flavor experience. From a co-creation perspective, more important than the physical characteristics of the new formulation is that XO was developed in partnership with Marmite lovers and launched through social media.

Let us drop in and learn how Unilever developed and launched Marmite XO.¹⁶

Act 1: Listening and Recruiting

In 2009, when the brand was planning the launch of XO, it decided against developing and marketing XO in the traditional way. It wanted to implement a new form of development and marketing, one that was based on social media, and one that used social networks of Marmite lovers and made them part of the development journey. Along the way, the brand wanted to amplify interest and intrigue around the launch of XO to pre-build demand for the new formulation.

Experimenting with social media as an alternative platform for development and marketing was a natural extension of Marmite's ongoing involvement and interaction with the medium. It had been actively listening to fan conversations on social media sites like Facebook, blogs, and Twitter for a few years. The Marmite Facebook page, originally created by fans, has almost a quarter of a million members and has grown organically because of the passion the fans have for the brand. Marmite currently shares this site with its fans and routinely initiates and takes

Exhibit VI: Marmarati History

- ◆ 1902: Marmarati comes into being. Peace arrives to the British Colonies with the end of the Boer War, happiness and trust is restored to the nation.
- ◆ Things begin crumble by 1909. Social circles think it fashionable to expose closely guarded secrets to gain credibility amongst their peers, The more precious the secret uncovered, the more rungs climbed on the ladder to high society.
- ◆ In that year alone Madame Eusapia Palladino, a famous spiritualist medium at the time, is branded Madame Fakerio by the media after being exposed as a fraud. Oudini, a Houdini impersonator releases a book exposing the tricks of the most famous escape artists. The foundation of MI6 marks the Government's intrusion into the public's personal lives, obtaining ever-increasing amounts of private information and inspiring Frances Hodgson Burnett to write *The Secret Garden*, an allegorical tale capturing the paranoia and hysteria felt by the public throughout this period. The only reprieve from living in this chaotic, terrifying year was the creation of one the most important inventions of the 20th Century: the modern toaster.
- ◆ It was against this cultural backdrop that the founders and close friends of the Marmite Food Company decided to go underground with Marmite's recipe. Burning all public documentation of Marmite's blending and production processes, and binding the group through the swearing of a solemn oath ensured the secret was kept and passed down to the carefully selected next generation throughout the ages.
- ◆ From the day of its inception this clandestine society went under the name of the 'Marmarati'; Hand-picked guardians of the Marmite code, entrusted to pass on the knowledge only to those that are deemed worthy.
- ◆ 100 years have now passed since the Marmarati was formed and it is time to select the next line of Marmaratis. This momentous occasion will be marked by the launch of the most powerful Marmite ever made. Currently codenamed 'MXO', this new Marmite will be blended and made only by lovers; only for lovers.

Source: Tantum Pro Diligo

part in conversations with the brand's consumers. So when the time came to pick collaborators to help co-create XO, Marmite turned to its strongest asset, its fan base. Working with a social networking and communications agency, We Are Social (<http://wearesocial.net>), the brand handpicked 30 'super fans,' people who had created the most positive content around Marmite, for participation in the XO development journey.

Act 2: Engagement and Development

The development journey began with Marmite staging an extraordinary event full of intrigue and dash. First, a Victorian-style secret society, The Marmarati, was created legend has it that The Marmarati had been the guardians of the Marmite brand for a century, protecting it from all enemies at home and abroad (from marmalade in the UK, and from Vegemite

in Australia and other countries). They were revealing themselves to the world again to celebrate their centenary with the launch of XO and recruit the next generation of the society's members. Exhibit VI narrates the Marmarati history and legend.

Next, the 30 'super fans' were invited to a fabulous setting in a listed building in central London. Think red velvet drapes, sterling silver candelabras, low lighting, dark wood, and a luxuriously laid banquet table. The event was hosted by the Marmite marketing team, all dressed in period Victorian costumes. Matt Burgess and Tom Denyard, Managing Director and Marketing Manager of Marmite in the UK, respectively, who kindly provided all the details for this case study, played key roles at the event. As Lord Marmarati,

¹⁶ Details of the Marmite XO case study were obtained through conversations with Unilever marketing executives, Matt Burgess and Tom Denyard, and from documents shared by them.



Matt Burgess initiated the guests into the society with an oath of allegiance and personally signed their initiation certificates. Tom Denyard played host to the selected group, which was dubbed the 'First Circle' of the Marmarati.

Following their induction to the society, the 'First Circle' participated in a blind tasting of three versions of XO at the banqueting table. Based on their tastes and preferences, they provided feedback and suggestions to influence the further development of Marmite XO. They were also involved in a review and discussion of prototype designs and presentation of the new formulation. The rest of the

world, with a wax-dipped lid and a Marmarati crested wax seal on the front. They also received a special request from the brand: to try the brand and film their reactions. This time, incentives were offered through the Marmarati Ambassador program. To achieve Junior Ambassador status, a Marmarati had to upload a video of his or her own reaction and that of at least five other Marmite lovers. For their submission, Junior Ambassadors received a first batch production jar of Marmite XO when it went on sale in March 2010. To achieve Senior Ambassador status, however, a Marmarati had to go above and beyond. They were

- ◆ This ongoing conversation with its fans gave Marmite the platform to amplify its engagement with the Marmarati, which was made easier because of the passion and attachment consumers had for Marmite.
- ◆ Marmite responded both externally and internally.
- ◆ Externally, the company launched a carefully managed set of activities to help co-create XO's formulation and presentation.
- ◆ Internally, Marmite's marketing and product development executives worked closely with one another and the Marmarati to help refine the XO

There is no doubt that the launching of Marmite XO is an extraordinary illustration of collaboration and co-creation

evening was devoted to merry making: drinking Marmite-infused cocktails and eating Marmite-inspired canapés.

Act 3: Creation and Launch

The 'First Circle' left that evening with a lot to talk about and a very specific brief: to recruit people to the 'Second Circle.' To be admitted to the 'Second Circle,' consumers had to upload something creative to Marmite's website (www.marmite.org) to show their love for the brand. The brand received a range of materials from poems to films and everything in between 750 total entries and 23,000 unique visitors to the website in five weeks. One hundred sixty winners were selected by a public vote from the total pool of entries.

The 'First Circle' plus the 160 'Second Circle' winners each received a commemorative jar of Marmite XO – beautifully made, one of only 200 in the

required to host a 'tasting party' and upload a video capturing the reactions of more than ten people. Depending on how heroic a Marmarati was willing to be, rewards could range anywhere from a year's supply of Marmite to a lifetime's supply, and even more: a money-can't-buy experience involving a trip to the Marmite factory and a brewery sourcing the raw ingredients for XO.

There is no doubt that the launching of Marmite XO is an extraordinary illustration of collaboration and co-creation. The splendor, creativity, and the manner in which it was staged sets it apart. But there is more. It is also an excellent illustration of the Listen-Engage-Respond framework in action. Consider the following:

- ◆ Marmite was listening to its fans and was engaging them in conversations before it decided to embark on the co-creation of XO journey.

formulation currently on sale to the general public.

- ◆ All through the development and marketing cycle, consumers had a voice; they were able to speak to the brand and the brand was able to speak to them, making it unnecessary for the company to push and sell its product; in short, collaboration was not just a platform for co-creating XO, it was also a platform for rethinking marketing.
- ◆ Marmite's authenticity and commitment to the Marmarati, or to the co-creation of XO, was never in doubt. ☺

Note: This article is an excerpt from the book *Collaboration and Co-Creation: New Platforms for Marketing and Innovation* by Gaurav Bhalla.

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Reference #03M-2011-02-03-01



The Moral of the Moment

A Ride to Remember



This month's article was supposed to be about a sales message that I think would have hit home for many of us, but a chance encounter with a driver this past week has interrupted that message. We'll get to it another time. I need to tell you about my new friend Abdul.

I was hustling off to a meeting when the hotel bellman presented me with an option. "Do you want to jump into a cab or limo? This limo driver charges the same price as the cab." He didn't have to ask me twice what my preference would be. As I jumped into his limo I was greeted with a smile, a handshake, and what I would soon find out to be, an education of sorts.

I got lucky and got to meet my new friend Abdul. Let me tell you about him. I'm not going to tell you that my country is better than any other country. I will tell you that he appreciates his life here. He had to find a way to come to this country years ago. In Bangladesh, his native country, they held a lottery for people who wanted to come to the US. It turns out Abdul had luck on his side and he was one of the five hundred winners. Over a million people entered that lottery.

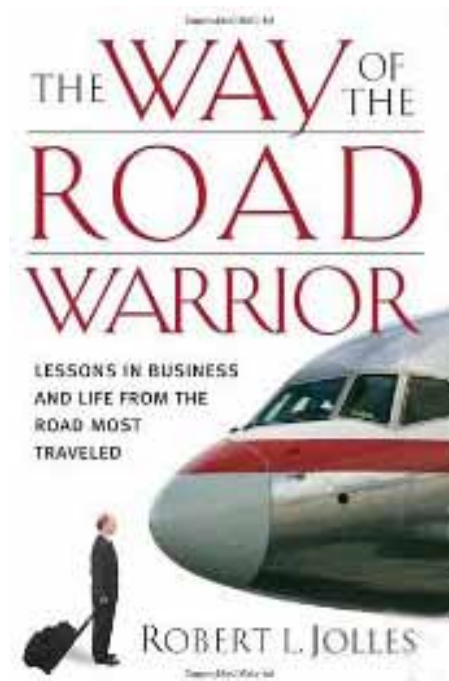
He had to learn our language. Unfortunately he didn't speak a word of English when he arrived here. It turns out Abdul learned our language rather quickly. Then he learned four others while he was at it.

He had to find work, and like many who come to my country, the best fit initially was driving a cab. Unfortunately that doesn't pay very well, nor does it provide for a real future. It turns out Abdul purchased a limo some years ago. Then he purchased another... and then another. Last week he purchased his eighth limo so all his drivers for the limo company he owns have a car.

Inspired? I am, but it turns out Abdul doesn't just inspire; he teaches. He reminded me of an important lesson when he told me the secret to his success. In one word it's 'honesty.' It turns out his father taught him that lesson. There are no compromises, no hedging one's bets, no justifying unethical behavior, and that means a slower ascent to success.

Let's pause there for a moment and consider this. How many times do we take the high road in business or in life, become frustrated with how difficult and agonizingly slow that path can be, and then give way to temptation by looking for the easier road?

Now I'll bet you want me to end this story with a feel-good finish and tell you how wealthy my friend Abdul is. He works hard every day, and drives one of his eight limos. It turns out he is a very wealthy man, but he would define his wealth differently than we do. As he put it, "I am able to put a roof over my family's heads, feed my family", and he gushes when he talks about putting his kids through college. His wealth lies in



the balance he has in his life, and the lessons he learned from his father, and his faith.

New lessons? The moral of this moment is not a new lesson. But sometimes the easiest, and the oldest lessons are the lessons we need to be reminded of because they don't count if we don't adhere to them. Honesty, integrity, faith, and making the most of every opportunity that we are given, all these lessons were reminded to me by way of a lottery winner named Abdul from Bangladesh. Like I said, he is a very wealthy man. He made me a wealthier man by giving me the privilege of riding with him, not once, but three times. It turns out that as Abdul firmly believes, if you adhere to the above-mentioned lessons, in the end, you will prosper by the loyalty your clients and friends show you. In the end, everyone wins. ☺

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Reference # 03M-2011-02-04-10

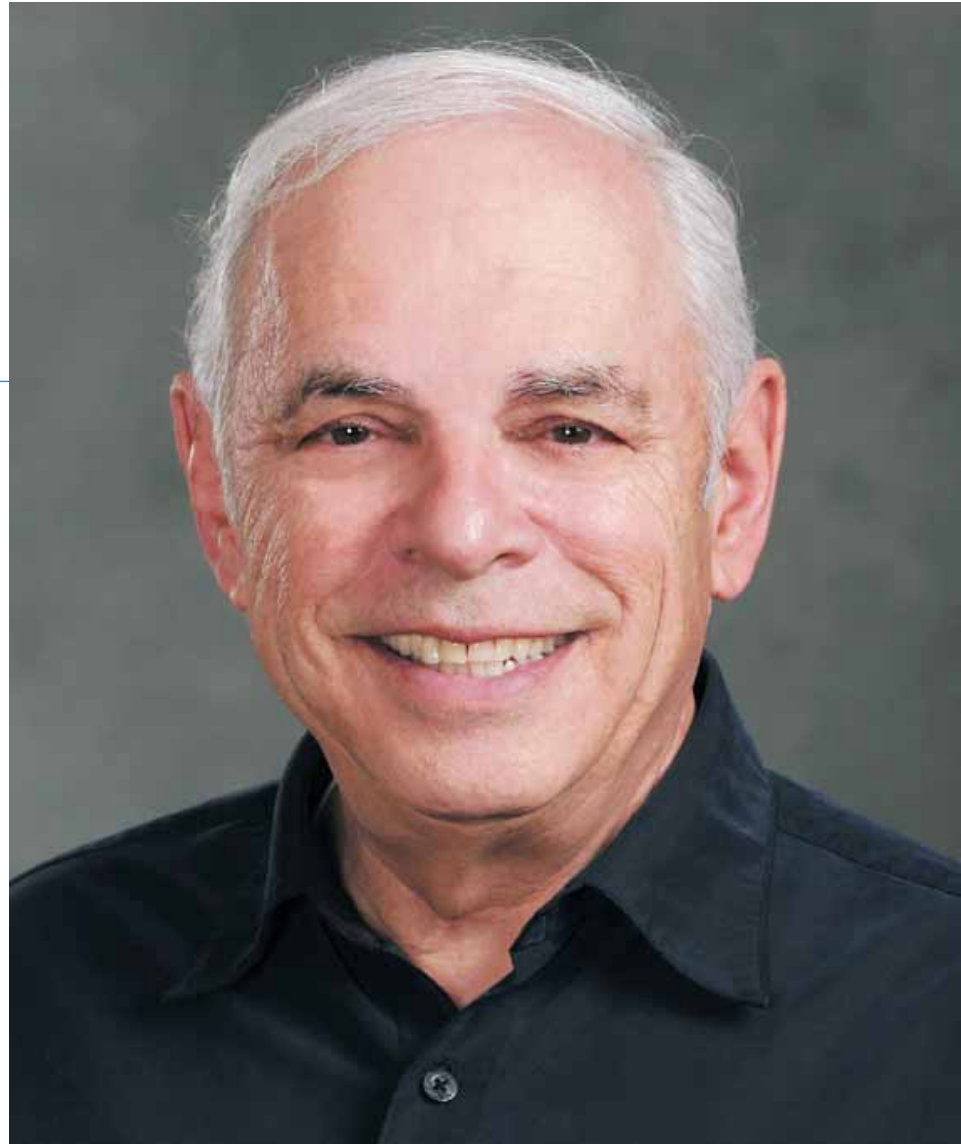
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interVIEW



You can't trust companies where the processes which underlie their business are so complicated that no one really understands how they work.

What is trust according to you and why do you think it is so important for the companies and companies' boards to renew and rejuvenate their trust-related dashboards?

In my view, trust is the belief that a person will behave ethically, and be true to his or her word. I frankly don't believe that adults should be taught to be trustworthy, anymore than I believe that we should have a course or training in ethics. Every religion teaches some form of golden rule, and good parents preach and model trustworthiness. The only dashboard you need is one that tells management and employees that X% of your customers trust you. Anything less than 100% is cause for alarm.



interVIEW

Companies have to build trust not just internally – amongst all the immediate and extended (MNCs having operations in several companies, companies having off-shore operations, etc) employees – but also amongst all the stakeholders. How do you think companies should go about designing a unique and very organized DNA that would ensure it very high trustworthiness amongst all employees and stakeholders?

It's pretty simple really. Own up to mistakes and keep your word. Virtually every violation of trust by individuals or corporations becomes worse when they try to spin their way out of it.

However, building trust amongst customers is the biggest challenge that any company faces. What according to you are the best ways to build trust amongst customers? Are there any lessons from fairly long-lasting brands such as P&G, Nestle, Louis Vuitton, GE, Unilever, Rolls Royce, etc?

See answer to question 2. Also, high trust companies such as these stand behind the quality of their products.

How to build trust in online businesses like e-Bay, Amazon.com, monster.com, ecch.com, etc?

Make contacting the company easy to do. This means not only making websites easy to use, but have representatives staff the phones. Too many companies want to force their customers not to talk to them! What some companies such as Rackspace (a third party Internet provider) do is have every call answered by a live person...no long menus to get to what you want. They also have enough operators on hand to prove that "your call is important to us." Rackspace has found that they get fewer calls since customers trust that they can get phone help anytime and feel comfortable using the website.

The world's financial markets nearly collapsed in 2008 fall for one reason: lack of trust. Even big banks refused to lend to each other because they didn't trust they would be repaid. What do you think the banks, The Fortune 500 companies, the regulators and policy makers and the researchers should learn from 2008 financial crisis? What are the trust-related lessons from this crisis?

You can't trust companies where the processes which underlie their business are so complicated that no one really understands how they work. I'm no expert on the banking system, but I believe that the banks entry into brokerage businesses left them as untrustworthy as guardians of depositors' money.

Richard B Chase

is considered the founder of the field of Service Operations Management. He is co-author with R Jacobs and N Aquilano of Operations Management and Supply Chain Management (13th edition), which has been the most widely used textbook in the field since its first edition in 1973. Two of his Harvard Business Review articles, "Where Does the Customer Fit in a Service Operation?" and "The Service Factory" (with D Garvin) have been cited as classics.

In 2010 he was listed as one of the 100 most inspirational graduates in the 75 years of UCLA's Anderson School of Management. In 2009, he was honored as a major contributor to the field of service operations management in the January issue of the POMS Journal, and was also received a lifetime achievement award by the American Marketing Association's Service Interest Group. In 2006 he received a lifetime achievement award from the Production and Operations Management Society; and in 2004 he was recognized as Scholar of the Year by the POM Division of the Academy of Management. He was listed among the top 20 contributors in the history of operations management in a 2007 International Journal of Operations and Production Management survey, and the Journal of Retailing identified him as one of the leading scholars in services marketing. Recent publications include "Designing the Soft Side of Customer Service" (with S Dasu), MIT Sloan Management Review, Fall 2010, "Revisiting 'Where does the Customer Fit in a Service Operation?' Background and Future Development of Contact Theory", in P Maglio et al., Handbook of Service Science, 2010, "Experience, Destination Services and Service Operations Strategy: Foundations an Exploratory Investigation (with A Roth and C Voss), Production & Operations Management Journal, 2008, "A History of Service Operations Management: What's the Big Idea?" (with U Apte), Journal of Operations Management, 2007.

Selected previous articles include "Want to Perfect Your Company's Service? Use Behavioral Science" (with S Dasu) Harvard Business Review, 2001; "Make Your Service Failsafe" (with D Stewart) Sloan Management Review, 1994; "Beefing Up Operations in Service Firms" (with R Hayes), Sloan Management Review, 1991; "The Customer Contact Model for Organizational Design (with D A Tansik), Management Science, 1983; "The Customer Contact Approach to Services: Theoretical Bases and Practical Extensions", Operations Research, 1981.

He is a Fellow of the Academy of Management and Decision Sciences Institute, and POMS. His money back service guarantee for his MBA course on Service Management received international attention in the business press. He has consulted or lectured to such companies as McKinsey Consulting, Disney Products Division, Dell Computers, Cisco Systems. He has also served on the faculties of the Harvard Business School, University of Arizona, UCLA, and IMD in Switzerland. His current work focuses on how management can use concepts from operations management and psychology to create exceptional service experiences.



Trust is essential to building enduring connections with employees, suppliers, customers and the communities in which businesses are carried out. How do you gain trust? What does it take to build trust? What behaviors and management practices deepen trust to create lasting impact, greater confidence, and sustained success?

One often successful way of building trust is to offer a service guarantee such as pioneered by FedEx and Domino's Pizza. What this does is to signal to the customer that the organization will go out of its way to fulfill the promise that is being made by a guarantee. When I was teaching at USC, I frequently offered the following service guarantee for my MBA service operations course: "If you are not satisfied with the quality of the course, I will refund the cost of your books and cases and \$250 of your course fees." Here I showed the students that I was dedicated to providing an outstanding classroom experience. This had a marketing impact by increasing my enrollment from 30 students prior to it being offered to 85 afterward. The trust generated here was that I would do my best and that I would trust students to be honest in their evaluation. After all, no one would want to spend a semester in a lousy course, and I would certainly not want to pay out a large amount of money. (For the record, nobody requested a refund, even though they could collect the same after the final grades were posted. The only requirement was that students must tell me before the end of the semester if they were unhappy so I could make adjustments.)

Recent research, by the way, suggests that having a guarantee is almost always better than no guarantee.

Can you give a few definitive and illustrative examples of best practices that have reigned in extraordinary trust, may be in workplaces, in customers, in citizenry, etc?

In a recent *MIT Sloan Management Review* article, "Designing the Soft Side of Customer Service," (Fall 2010) my colleague, Sriram Dasu and I suggest that companies that are willing to "take the high road" can enhance trust. The reason is that in most service situations, the service provider has the upper hand in terms of power and/or information and the customer or client is at a disadvantage. We contend that trust increases significantly when the dominant party signals that it will not exploit the other's vulnerability. For example, when I returned a car to Hertz Rental Car in Hawaii, it had three quarters of a tank of gas even though I paid extra for a full tank option at the time I picked the car up. Essentially, I had paid twice for the car. Recognizing this, the agent who checked in the car credited my credit card account for the price of the remaining gas. He didn't have to do this, but his not taking advantage of the situation made me a dedicated customer of Hertz.

To what extent do you think the mandatory governance practices – corporate governance codes, internal audit processes, board structures, etc – would help fostering trusted companies, trusted employees?

The most important thing other than having senior management model honesty and fairness is to modify reward systems so that they don't drive employees towards shoddy practices. It also helps to have regulators do their jobs of providing real oversight, which was not the case in the US financial crisis. ☹

The interview was conducted by
Dr. Nagendra V Chowdary
Consulting Editor, *Effective Executive*

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Delegating Effectively



As a project leader, manager, or business owner, you may suffer from a fatal disease – one that can suck the very life force from not only you but from everyone and everything around you. The disease is called *delegitis* and its symptoms include:

- ◆ Feeling overwhelmed not just by the amount of work but also by the broad range of work that you need to do.
- ◆ The nagging suspicion that people around you – your employees and staff – are not as competent as you always thought.
- ◆ The increasing sense of responsibility with the knowledge that there's no one who can do the work as good as you and as fast as you.
- ◆ The meltdown that occurs when you DO count on others and things go south.

If you've ever experienced these symptoms, you may have *delegitis*. In its final stages, it can devastate a team or company. In this article, we'll talk about the causes of *delegitis* and the cures.

Delegitis Linked to Monkey Bites

Has this happened to you: You're walking down the hall and one of your employees greets you and says, "We've got a problem. You see," As you listen, you realize that 1) you know enough about the problem and possible solution to get involved, but that 2) you don't know enough to make a decision on the spot. So what happens? You say, "I don't have enough time right now. Let me see what I can come up with...." As you rush off, the problem – like a monkey – that your employee was carrying is now on your back.

You own it. Your employee does not – CANNOT – do anything until you "see what you can come up with."

The monkey – the problem – started off as your employee's responsibility. Now it's your responsibility. You don't have time for yet another priority. And your employee will be forced to wait for you. Your employee gets frustrated with the bottleneck you're creating. You are frustrated by the mounting problems you have to resolve (not to mention the monkey bites you're receiving). Both of you are becoming angry at the apparent incompetence of the other person.

Why does this happen? Because the manager and the employee assume at the outset, wittingly or unwittingly, that the problem under consideration is a joint problem. It isn't. The problem is – and should remain – your employee's problem.

Get the monkeys off your back and onto your subordinates' back where they belong. If a decision is required, make it. If more work needs to be done on the problem, have the subordinate do the work and provide you with –

1. A recommendation and rationale
2. A decision and report, or
3. Whatever you need.

Keep monkeys off of your back by performing the duties required of you as a manager and by NOT performing the duties you expect of your employees. Become proficient at recognizing monkeys and adept at refusing to accept monkeys!

You'll get more done and so will your employees! And you'll avoid the monkey bites that cause *delegitis*!



Delegation

Most managers accept monkeys because they believe that there are only two levels of delegation: 1) I do it, or 2) YOU do it. They further believe that if YOU can't do it, then I MUST do it. Ouch, another monkey bite!

Delegation actually happens at five distinct levels. Knowing these levels helps you prevent monkey-jumping (and enables you to actually start coaxing some of the monkeys off YOUR back!):

Selecting the Appropriate Level

Choosing the appropriate delegation level is fairly straightforward: "Does the person have the capability to do the work at the level I'm delegating?"

Capability implies:

- ◆ **Time and Priority:** The employee must know the time requirements for this task and must have – or get from you – the authority to complete the work.
- ◆ **Skill:** The employee must have the skill or knowledge required to do this work

Five Levels of Delegation

Level 0	Wait for my direction (this really isn't delegating which is why its level is 0)
Level 1	Look into the problem – provide facts – I will make the decision
Level 2	Look into the problem – provide me with alternative actions, make recommendations
Level 3	Look into the problem – inform me about what you intend to do
Level 4	Take action – inform me of the final result
Level 5	Take action – no further contact with me required

or must be provided avenues for getting the skill or knowledge.

- ◆ **Freedom/Responsibility:** The employee must understand clearly what is allowed and not allowed, what kind of reporting/check-in is required for YOU to feel confident, and what success looks like. Then the employee must have the appropriate freedom and latitude to do the work without interference from you. (As managers, we subconsciously invite most monkeys to jump onto our backs!)
- ◆ **Confidence:** Provide the appropriate level of support depending on the level of delegation. Too much support seems like meddling. Too little support seems like abandonment.

Delegate Effectively

Delegate effectively by –

- ◆ Matching the task to skill set or development area.
- ◆ Discussing the end goal with the employee.
- ◆ Allowing for flexibility in solving the problem or accomplishing the task.
- ◆ Clarifying expectations, timelines, and support needs.
- ◆ Following up appropriately (depending on the task and the capability of the employee).
- ◆ Recognizing good performance.
- ◆ Coaching unsatisfactory performance.

Terence R Traut

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Dos and Don'ts in Delegation

- ◆ Do ask yourself, "What is the most important thing I can be working on right now?" If you're not doing that thing right now, consider delegating what you're doing!
- ◆ Do be realistic. No one will do it as good as you or as fast as you the first time. Get over it. Your job in delegating is to determine what is acceptable and to manage to that level. Perfection is an unforgiving taskmaster.
- ◆ Do use delegation to develop employees. Increase the level of delegation and provide the support they need. Don't know what support they need? Ask!
- ◆ Do monitor appropriately. Don't confuse delegation with accountability. Even though you may delegate an entire task, you are still

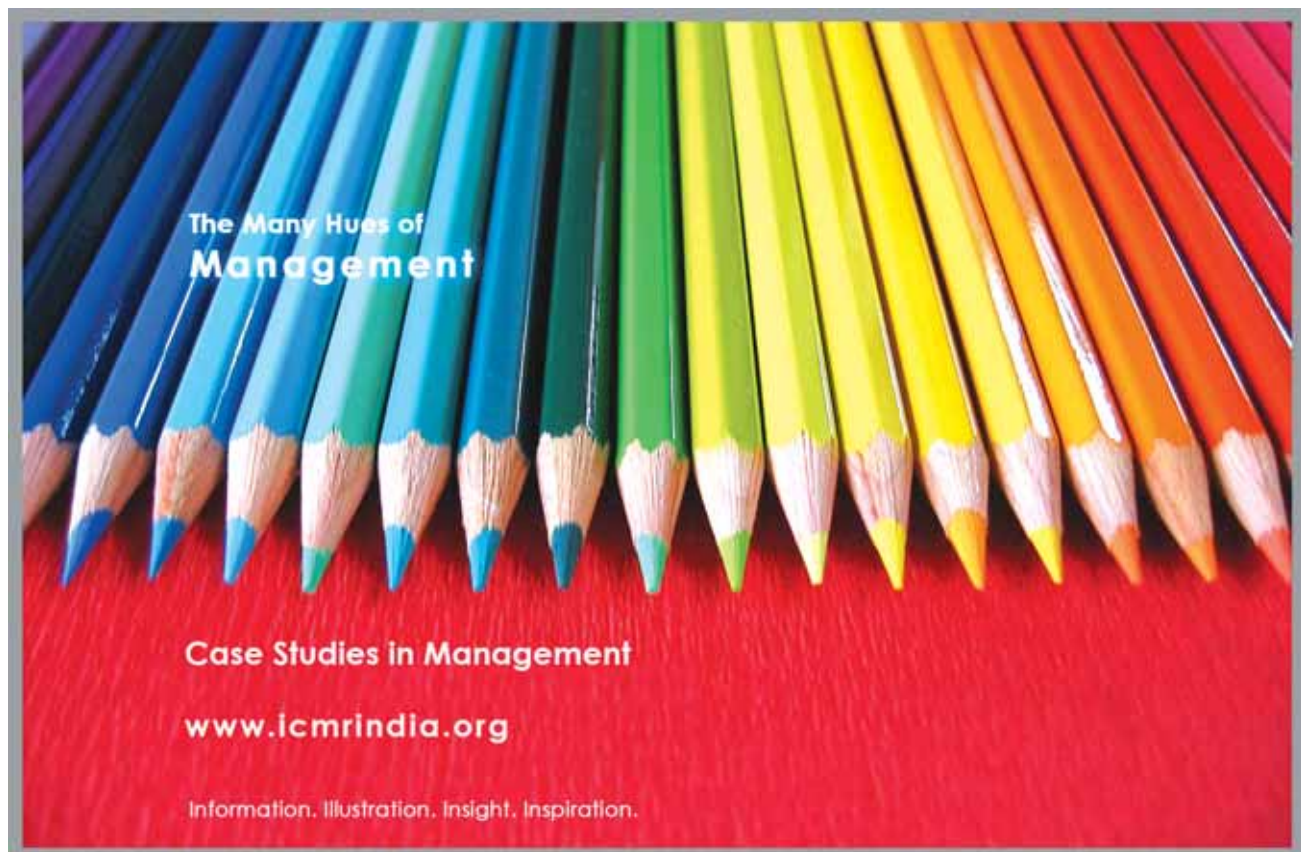
accountable at some level for its success. Check in. Recognize efforts and results!

- ◆ Do ensure success. Provide communication guidelines to help prevent failures or stalls. "Give me an update every Thursday by 5:00." "Call me if you have trouble getting the figures you need and we'll brainstorm...."
- ◆ Do network. Often managers don't delegate because they don't know whom they can delegate to. Sometimes the best talent is within your own organization. Consider colleagues, other departments in the company (e.g., mailroom, copy service), vendors, and organizations outside the company. Consider personal contacts to whom you can delegate non-work related tasks (such as house cleaning, shopping, lawn care, etc.)

- ◆ Don't delegate things that only you can/should do. These include motivation, coaching, team-building, organization, praising, reprimanding, performance reviews, and promotions.
- ◆ Don't hang onto pet projects only because you like them. A pet monkey bites just as hard as a rogue one! Look for opportunities to free up your time and effectively use your resources.

Recognize *delegitis* before it cripples you or your organization. Keep the monkeys off your back and use delegation techniques to increase your productivity and the health of your organization. ☞

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Hospital Downsizing

A Breach of Trust?

The years 2009 and 2010 witnessed the downsizing and restructuring of the healthcare sector in North America. Elsewhere the governments have been struggling to reduce deficits at a time of worldwide economic recession. Hospital downsizing, reflected in the termination of some employees, reflects a breach of employee trust in the employer-employee relationship. This article examines the relationship between downsizing efforts undertaken by the healthcare sector and its perceived threats to job security among the nursing staff.

Downsizing and Threats to Job Security

Employees who themselves might not be facing any threats to their job security in their present organizations, are certainly aware of these threats to others. First and foremost, the worldwide economic recession increased the number of people who lost their jobs and remained unemployed. Second, the media covered details of job losses throughout 2009 and 2010. Thus, in the UK for example, the new government reduced levels of public sector spending that eliminated 500,000 public sector jobs. Health services were spared in these cuts but it is likely that nursing staff in the UK have family members or friends who will lose their jobs as a result. In addition, the 500,000 public servants aware of the looming job losses do not yet know if they will be the victims. In Canada, surveys of employees taken in late 2010 found that more employees are valuing security and stability as a response to the recent worldwide economic recession. In addition, a recent newspaper story cited a research study by a Canadian company indicating that if Canada signed a free trade agreement with the European Union, 150,000 Canadian jobs would be lost. Thus, job insecurity is likely to have increased among individuals working in organizations likely to reduce their workforces as well as among

employees aware of the job losses going on around them.

There has been a parallel increase in research on job insecurity following increases in organizational restructuring and downsizing in the late 1980s and early 1990s. Sverke, Hellgren and Naswall (2002) conducted a meta-analysis and review of job insecurity and its consequences. They considered short-term or immediate reactions to job security/insecurity as well as long-term reactions to job security/insecurity and consequences of the same for individuals and for the organizations. Short-term individual reactions to job security included job satisfaction and job involvement; while long-term individual reactions included mental and physical well-being. The researchers also found significant effects of job insecurity, which included diminished levels of job satisfaction, job involvement, lower mental and physical health, lower organizational commitment and trust and increased intentions to quit. Job insecurity had mixed effects on job performance. These reviews of literature provide convincing evidence that job insecurity is almost always associated with adverse individual reactions. Some of this work indicated that job insecurity was heightened by organizational changes, personal and work situation demographics



such as employee age, marital status, parental status and level of education, as well as individual personality traits such as locus of control, self-esteem and job involvement.

Hospital Restructuring and Downsizing - One More Time

The health care sector is again the target of restructuring, downsizing and cost cutting as governments attempt to deal with budget shortfalls. In 2009/10, government leaders were facing budget deficits, partly the result of the worldwide economic downturn, and partly the result of escalating costs. Health care costs have not reduced; in fact, they continue to increase at a faster rate than the inflation. Some governments have concluded that they would not be able to continue to fund healthcare at their current levels. As a consequence, efforts are underway once again to restructure and downsize health care delivery and hospitals.

The present study examines the impact of hospital downsizing initiatives in 2009/10 on the increased threats to job security in a sample of nursing staff working in health care settings (hospitals) undergoing significant downsizing. The sample worked in hospitals near Los Angeles, California, a state undergoing dramatic budget cuts in response to the recent worldwide economic recession. State workers in California have lost their jobs, been required to take unpaid days off work, and hiring has been frozen in all government departments.

The following general hypotheses were considered.

- ◆ Nursing staff opining that more restructuring initiatives indicate higher levels of job insecurity.
- ◆ Nursing staff of the view that higher levels of hospital and union support indicate lower levels of job insecurity.
- ◆ Nursing staff indicating that higher levels of job insecurity would lead to the

following: being less satisfied with the work, engaging less with the work, more likely to be absent from the work, likely to be “burned out” due to the stress, more likely to quit, more psychosomatic symptoms and more medication use.

- ◆ Nursing staff indicating that higher levels of job insecurity would indicate more negative impacts of hospital restructuring on hospital functioning and hospital upkeep of facilities.

Method

◆ Procedure

Data was collected from two sources. First, some data was collected from a hospital located in southern California. The Vice-President of Nursing and Patient Care distributed approximately 300 survey questionnaires to the hospital's staff nurses on behalf of the research team. A \$5 Starbucks gift card was offered to the nurse participants. A total of 67 surveys were returned resulting in a response rate of about 22%. Second, additional data was collected online using SurveyMonkey from graduate nursing students. These students were enrolled in a graduate nursing program (a Masters degree) at a large public university and all were on rolls currently (i.e., were working either full-time or part-time). A total of 222 nursing staff enrolled in the Masters program responded to the online survey and each respondent also received a \$5 Starbucks gift card for her participation. The combined sample (n=289) is best described as a convenience sample.

◆ Respondents

The sample was primarily female (92%), worked full-time (79%), had supervisory duties (59%), had 5 years or more of unit tenure (47%), 10 years or more of hospital and nursing tenure (44% and 59%, respectively), had not changed units in the past year (90%), worked in a variety of nursing units, worked in hospitals

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having 250 or more beds (74%), worked 35-44 hours per week (66%), had a Bachelor's of Nursing degree (50%), and were between 36 and 55 years of age (60%).

Measures

◆ Threats to Job Security

Respondents indicated how likely they would experience each of the seven events ($\alpha = 0.84$) during the coming year on a 4-point Likert scale anchored by 1= highly unlikely to 4= almost certain. Items included layoff, termination, deterioration in working conditions, and changes in employment status to part time during the coming year.

◆ Restructuring Initiatives

Nursing staff were presented with a list of 16 potential downsizing initiatives and asked whether each had been implemented in their hospitals during the preceding year (1=yes, 2=no). Respondents indicated that an average of 10.1 downsizing initiatives had been implemented. Thus, considerable downsizing initiatives were being undertaken by their hospitals.

◆ Hospital and Union Support

Hospital support was assessed on a 16 item scale that was developed by Eisenberger, Huntington, Hutchison and Sowa in 1986. The scale was adapted to the nursing staff and the hospital context ($\alpha = 0.95$). Respondents indicated their agreement with each item on a 7-point scale (1-strongly agree, 4-neither agree nor disagree, 7= strongly disagree). One item was "This hospital really cares about my well-being." Union support was measured on a 4 item scale ($\alpha = 0.91$). Nursing staff indicated their agreement with each item on a five-point scale (1-strongly disagree, 3- neither agree nor disagree, 5 - strongly agree). One item

was "My union in this hospital improves nurses' job security."

◆ Work Outcomes

Three work outcomes were included. Job satisfaction was measured on a five-item scale ($\alpha = 0.87$) developed by Quinn and Shepard (1974). One item was "All in all, how satisfied would you say you are with your job? (1=very satisfied, 4= not at all satisfied)".

Absenteeism was measured by two items ($\alpha = 0.76$). "How many days of scheduled work have you missed in the past month?" (1= None, 4= Three or more days).

Intent to quit was measured by a single item. "Taking everything into account how likely is it that you will make a genuine effort to find a new job with another employer within the next 12 months?" (1= very likely, 3= not at all likely).

◆ Work Engagement

Three dimensions of work engagement were included using measures developed by Schaufeli and Bakker (2003). Vigor was assessed by six items ($\alpha = 0.81$). A sample item was "At my work, I feel that I am bursting with energy." Dedication was assessed by five items ($\alpha = 0.89$). One item was "My job inspires me." Finally, Absorption was measured by six items ($\alpha = 0.84$). One item was "I get carried away when I'm working." The reliabilities of these measures was typical of those reported by others.

◆ Burnout

Three dimensions of 'burnout' were considered, each measured by the Maslach Burnout Inventory (MBI) developed by Maslach, Jackson and Leiter (1996)¹. Respondents indicated how often they experienced particular feelings on a 7-point scale (0= Never, 6= Every

day). Emotional exhaustion was measured on a five-item scale ($\alpha = 0.91$). An item was "I feel emotionally drained due to my work." Cynicism was assessed on a five-item scale ($\alpha = 0.88$). One item was "I have become more cynical about whether my work contributes anything." Professional efficacy was measured on a six-item scale ($\alpha = 0.82$). A sample item was "at my work, I feel confident that I am effective at getting things done."

◆ Psychological Well-being

Three aspects of psychological well-being were included. Psychosomatic symptoms were measured using a thirty-item scale ($\alpha = 0.92$) developed by Derogatis, Lipman, Rickels, Uhlenhuth and Covi (1974)². Respondents indicated on a 4-point scale (1= never, 4=extremely often) how often they experienced particular psychosomatic symptoms during the past three months (e.g., headaches, poor appetite, pain in the lower part of the back, giddiness or dizziness).

Medication use was measured by five items ($\alpha = 0.62$). Respondents indicated how often they took medication (1= never, 5= a lot). Items included medication for pain, sleeping pills, and tranquilizers such as Valium.

Life satisfaction was assessed by a five-item scale ($\alpha = 0.89$) developed by Diener, Emmons, Larsen and Griffin (1985)³. Respondents indicated their agreement with each item on a 7-point Likert scale (1= strongly agree, 4= neither agree nor disagree, 7 = strongly disagree).

¹ Maslach C; Jackson S E; and Leiter M P (1996) *The Maslach Burnout Inventory*. 3rd ed. Consulting Psychologists Press. Palo Alto, CA.

² Derogatis L R; Lipman R S; Rickels R S; Uhlenhuth E H; and Covi L. (1974) "The Hopkins Symptom Checklist (HSCL): A Self-Report Symptom Inventory". *Behavioral Science*, 19, 1-15.

³ Diener E; Emmons R A; Larsen R J; and Griffin S. (1985) The Satisfaction with Life Scale. *Journal of Personality Assessment*, 49, 71-75.

One item was “In most ways my life is close to my ideal.”

◆ Hospital-Based Measures

Three hospital-based measures were included. Impact of restructuring on hospital functioning was measured by seven items ($\alpha=0.94$). Respondents indicated their agreement with each item indicating their views on the effects of restructuring and budget cuts using a 5-point Likert scale (1= strongly disagree, 3= neutral, 5= strongly agree). Items included “Lowered the quality of health care provided to our patients” and “Required nursing staff to perform more maintenance/housekeeping duties.”

Impact on hospital facilities was measured by an eight item scale ($\alpha=0.92$). Respondents indicated the extent of changes in their hospital during the past year (1= gotten worse, 3= about the same; 5= improved). Items included “level of cleanliness”, and “repairs to hospital buildings”.

Impact on future job security was measured by seven items ($\alpha=0.84$). Respondents indicated their views on the likelihood of particular work events or actions happening to them on a 4-point scale (1= highly unlikely, 4= almost certain). Items included layoff, demotion, and change in employment status to part-time.

Results

◆ Threats to Job Security

This sample of nursing staff indicated a relatively low level of threat to their job security, the mean rating for the seven items being 10.4 (s.d.=3.23).

◆ Extent of Hospital Restructuring Initiatives

Nursing staff reported an average of 10.1 restructuring and downsizing initiatives

out of 16 possibilities during the past year. The most common were: budget cuts (83%), a hiring freeze (77%), overtime restrictions (74%), not filling job vacancies (64%), and a wage freeze (45%). Thus, a considerable change was taking place in their workplaces. Number of hospital downsizing initiatives had a significant and positive relationship with perceived threats to job security.

◆ Hospital and Union Support

Level of hospital support reported by nursing staff was related to positive work and well-being outcomes and reduced threats to security whereas levels of perceived union support were not. In the context of California, unions had relatively little influence on the hospital downsizing processes. Hospital support, on the other hand, when seen to be at a high level, likely increased the trust of the nursing staff in their hospital.

◆ Threats to Security and Work Attitudes and Behaviors

Work Engagement

Threats to job security did not account for a significant increment in explained variance on any of the three work engagement measures.

Burnout

Threats to job security accounted for a significant increment in explained variance on two of the three burnout indicators – Cynicism and Efficacy. Nursing staff indicating greater threats to job security also reported higher levels of cynicism and lower levels of efficacy in their jobs.

Job Satisfaction

Nursing staff reporting greater threats to their job security also indicated lower levels of job satisfaction.

Absenteeism

Threats to job security had no relationship with self-reported absenteeism. Absenteeism is likely affected by a number of factors, hospital restructuring initiatives being only one of these.

Intent to Quit

Nursing staff reporting a larger number of threats to job security also indicated greater intention to quit.

◆ Threats to Security and Psychological Health

Nursing staff reporting greater threats to job security also indicated higher levels of psychosomatic symptoms and less satisfaction in day-to-day activities. Threats to job security had no relationship with medication usage however. Medicine use is likely affected by a number of factors, threats to job security being only one of these.

◆ Threats to Job Security and Hospital-level Outcomes

Threats to job security accounted for a significant increase in explained variance in both analyses. Nursing staff reporting greater threats to their job security also indicated a more negative impact of hospital restructuring and downsizing initiatives on hospital functioning and a greater decline in levels of hospital upkeep.

Discussion

The results presented here were consistent with previously reported findings on health care and downsizing in many areas (Aiken & Fagin, 1997; Aiken, Sochalski & Anderson, 1996; Baumann & Blythe, 2003; Baumann, O'Brien-Pallas, Deber, Donner, Semogas & Silverman, 1995; Blythe, Baumann & Giovannetti,



2001; Laschinger, Sabiston, Finegan & Shamian, 2001; Richard Ivey School of Business, 1997; Shanahan, Brownell & Roos, 2001; Sochalski, Aiken & Fagin, 1997; Woodward, Shannon, Cunningham, McIntosh, Lendrum, Rosenblum & Brown, 1999). In addition they support conclusions of studies on downsizing carried out in the private sector (Cameron, 1994; Cameron, Freeman & Mishra, 1991; Cascio, 2002, 1998, 1993; Ludy, 2009; O'Neill & Lenn, 1995; Wright & Barling, 1998).

Hospitals undertook a number of initiatives in their restructuring and downsizing efforts. Nursing staff reporting a greater number of hospital restructuring initiatives also indicated greater potential threats to their job security. But in this sample of nursing staff who had worked for a relatively long tenure, the level of perceived threats to their job security was relatively low.

Also, nursing staff indicating a greater level of potential threats to their job security also reported higher levels of burnout (more cynicism, less efficacy), less job satisfaction, greater intentions to quit, more psychosomatic symptoms, less satisfaction with daily activities in life, and more negative perceptions of the effects of hospital restructuring and downsizing initiatives on hospital functioning and hospital upkeep.

These findings suggest an urgent need for more effective hospital responses to financial restraint pressures, which the hospitals are currently facing. Fortunately more effective alternatives have been proposed, many of these resulting from the first round of hospital restructuring and downsizing initiatives that took place almost 20 years ago. Ludy (2009)⁴, based

on many years of senior management experience in the private sector believes that cost-cutting can take place without the loss of jobs. He lays out a process for embarking on cost cutting efforts as well as offering dozens of suggestions of initiatives that have been found to work.

Here are some ideas for reducing nursing staff job insecurity and other negative attitudes and job behaviors supported by research findings (e.g., Cascio, 2002)⁵.

- ◆ Hospitals must develop a clear purpose of what they would like to accomplish and why (their motives). Hospitals must approach this in an open, honest and fully transparent way.
- ◆ Hospitals must commit to make long term efforts to address their situations; there is no quick fix.
- ◆ Hospital and nursing leadership must be visible and available.
- ◆ Hospitals must make resources (time and money) available during this period of transition.
- ◆ Transition efforts must be undertaken in cooperation with the relevant nursing associations.
- ◆ Restructuring efforts must be a collaborative effort in which ownership, responsibility and accountability is widely shared.
- ◆ Staff terminations should be undertaken only as a last resort if other initiatives do not produce desired outcomes. Also, before undertaking any restructuring or cost-cutting initiative all the staff members should be invited to offer suggestions on ways to cut costs and reduce waste.
- ◆ Data needs to be collected from throughout the hospital and at frequent intervals to determine what is working and what is not working.

- ◆ There is a need to get over the negative reactions to whatever is being changed –grieving the loss of the past.
- ◆ Trust of senior hospital management needs to be reestablished and strengthened.
- ◆ There is a need for communication, lots of it, using various media with some repetition. One-to-one contact and contact within teams is vital.
- ◆ Patient care must remain as the paramount goal throughout the transition process.
- ◆ Hospital and nursing leadership need to plan for the change initiatives prior to their implementation, plan for the implementation and monitoring of these efforts, and plan for recovery and revitalization efforts following the restructuring initiatives being undertaken.

Implications

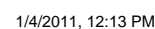
Research on the success of organizational restructuring, downsizing and cost-cutting carried out in both the private sector and the health care sector has highlighted the generally low levels of success in these efforts, approaches that were dysfunctional and efforts that seemed to work (see Ludy, 2009; Cascio 2002; Cameron, 1994). It is clear that approaching these complex and difficult transitions in the same ways tried two decades ago will not work well. Hopefully hospital executives and senior nursing leadership will make use of approaches that proved to be effective in the past. ☒

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⁴ Ludy P J (2009) *Profit Building: Cutting costs without Cutting People*. San Francisco: Berrett-Koehler.
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Building Trust by Ethical Values and Virtues

The Key to Long-term Success

The current economic crisis is among others a crisis of trust. Re-building trust is possible by inculcating good personal behavior and making institutional decisions based on ethical values and virtues. The following article shows the meaning and implications of this perspective and the steps which can help to build trust.



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The Current Crisis of Trust

The international crisis of 2007-2010 was not only a financial, economic, political and systemic crisis, it was also a crisis of trust in leaders and institutions: If globally leading banks get bankrupt, if highly paid stock exchange brokers are in jail, if well recognized

rating agencies are dismantled, if politicians are involved in corruption scandals and confidential reports of the diplomats are leaked, if media companies become partisans of political parties and special interests, if priests are accused of sexual abuse of minors, if governments are replaced because the citizens feel that they are incompetent, then it is almost always an expression of mistrust in leaders and institutions.

This lack of trust cannot be surpassed by cheap justifications by the accused, by public relations activism to repaint the façade or by only replacing a famous figure. It needs a deeper transformation of persons and institutions.





What Builds Trust?

Trust is the ability to be in a relation and to start an interaction with a person or an institution due to the firm reliance on the latter's integrity, honesty, ability or character. Trust is the basis of every relation and interaction, be it in the case of a couple or in the case of trade relations, financial transactions, diplomatic relations and international agreements. There is also a direct, measurable economic benefit of trust: Trust reduces the transaction costs in economic and human relations. But trust almost by definition includes also the risk of its abuse.

And how can trust be built? It grows with reliability, credibility, predictability and keeping promises. On the other side, mistrust results from arbitrariness, broken promises and lack of reliability. International surveys of trust and trust barometers¹ show that characteristics like reliability, integrity, honesty, openness in terms of being transparent, benevolence in terms of respect, and empathy for others are usually associated with trust. Trust is also strengthened if persons and institutions show a mature capability to recognize and analyze present and future risks and think of not only the short term profits, but also about the long term effects of their decisions. Experts are often considered to be more trustworthy than a common man, but expertise is also often mistrusted especially if an expert is not transparent in communicating the existing uncertainty in his/her field or if the experts devalue the rich day-to-day experience of the non-experts. A very important factor in building trust is also the milieu, social setting and environment of a person or institution. If a trader is not reliable, his whole company may be affected by mistrust.

Trust Needs Mistrust

Control is the enemy of trust. Trust must not be confused with blind trust. Blind trust

can be easily abused. It is not a stable foundation for a sustainable personal or institutional relationship. Trust does not come out of nothing. Trust is built step by step and grows with more number of reliable interactions. Trust is neither in opposition to contracts or control. Trust is also strengthened by control as well as by criticism. Constructive criticism shows that one is taken seriously and the partner is interested to improve the behavior or product of the partner. Such critique therefore strengthens trust.

Trust Based on Threefold Knowledge

A lot of information and knowledge is necessary in the modern, complex and interdependent world in order to find adequate reactions and solutions to problems. But which kind of knowledge is trustworthy in a world of tough competition where hidden agendas, own interests, manipulation of information is an everyday reality? Can we trust the adverts of a product? Can we trust the promises of politicians? Can we trust the management of a company, which after being responsible for an oil disaster claims that the problem is under control? Three kinds of knowledge have to be distinguished: Knowledge based on (scientific) expertise is crucial in a highly complex technical and political reality. Experts can build trust under the condition that they are independent and courageous which has to include freedom of expression independent of their financial sponsors. Since experts often do not show this independence and since scientific expertise often cannot guarantee final security, knowledge based on (personal and collective)

¹ International surveys on trust and values ,e.g., the global values survey www.worldvaluessurvey.org; trust in leaders, an inquiry of the World Economic Forum www.weforum.org; trust in brands www.rdtrustedbrands.com; Worldbank governance indicators www.worldbank.org/wbi/governance; European trust survey http://europa.eu.int/comm/public_opinion/sntadard_en.htm; Globescan www.globescan.com.

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experience is seen as more trustworthy: I only believe what I see and experience myself. We should have more trust in experience. But experience can also be misleading. Mere experience may not be adequate to face new challenges. Therefore, many people around the globe look for knowledge based on (religious) wisdom and revelation. Knowledge on the surface of what we see and analyze with human reasoning may not discover the deeper truth and the profound energies which influence and lead the world. Spiritual wisdom, as collected in the holy scriptures of all the religions, reveals another knowledge which builds trust because it is coming from a source which is very deep underground.

Building Trust by Virtues and Values

Why is the book of Gurcharan Das “The Difficulty of Being Good: On the Subtle Art of Dharma” (New Delhi, 2009) a bestseller? Because the Indian author combines his experience and professional expertise as former CEO of the recognized company, Procter & Gamble, with profound insights from the Indian epic, Mahabharata. Why is the late German Carl Friedrich von Weizsäcker seen as one of the most famous and trustworthy physicists of the 20th century? Because he combined first class scientific knowledge with profound philosophical and religious insights as a Christian believer with practical engagement for the environment. Why is the South African politician Nelson Mandela almost seen as a living Saint? Because he combined personal courage and suffering in the anti-apartheid movement with political wisdom as a global leader with profound values and the conviction that reconciliation even after the atrocities

of apartheid is possible, which ultimately opens the door for a peaceful society.

Personal virtues and common values, expressed as convictions, are key components in building trust between persons and institutions. The current international crisis of trust is a crisis of trust in one’s values and virtues. The *credibility* (trustworthiness, worth of trust) of a person and institution is built on its *credo* (the word credibility comes from the Latin word *credo* which means “I believe”, my/our values and mission statement). *Credo* and *credibility* are preconditions for receiving or giving *credit*, which is necessary for economic success. Credit is based on *credibility* and *credibility* is based on *credo*. We do not trust money but we trust the persons and institutions which lend, invest, monitor and manage our money. And then there is a profound, age-old mistrust in money as every generation experiences many economic crises and huge losses in the value of money. That is an explanation for the fact that in many currencies there are religious connotations on the banknotes. “In God we trust” is written on the US One Dollar, “*Dominus providebit*” (God will care) is written on the Swiss Five Franc coin. The last resort of trust is not money, but relations based on virtues and values.

Trust gets destroyed by attitudes such as greed, fraud or broken promises. Trust is built by *virtues* such as honesty, transparency, integrity, accountability, modesty, courage, fidelity, reliability, and carefulness. These are not old-fashioned and outdated moral restrictions which hinder progress, innovation and modern dynamism. On the contrary, such virtues are future-oriented and a pre-condition for long-term personal and institutional progress and success.

Care, Sustainability, Responsibility and Justice

Let us select four values which build trust: care, sustainability, responsibility and justice.

Care, based on compassion, is the ability to have empathy, emotion, sensitivity and rational capability for the needs of oneself and the other and to transfer it into concrete behavior and action. A caring person, community or institution looks not only of one own’s pocket, but also that of others. Caring for the common good means acting in the best interests of oneself and also in the collective interests of the society. Care in the private sector does not mean that a for-profit company must become a charity organization. No, not at all. It rather means to care for economic success in the broader stakeholder perspective, knowing that the success of one’s company is not sustainable if the social, political and environmental conditions around are not stable. Care and compassion are key values in all political systems, worldviews and religions. Caring for the common good in the Indian and Hindu context is explained by the concept of *Lokasangraha*, in the Japanese Shintoism by *Kyosei*, in Chinese Confucianism by *Da Tong*, in Buddhist Taoism by *Jew and Yi*, in African traditional wisdom by *Ubuntu*, in Latin American civic movements by *Cidadania* and in global Christianity by *Solidary Community*.

Sustainability is the value of the long term orientation in economic, environmental, social and cultural terms. Sustainable development enables the present generation to live a life of dignity without endangering the life of dignity of future generations or the non-human environment. Trust is destroyed when short-term decisions are made which is



highly risky. Reliability of business decisions, long-term investment interests, reliability of the political and legal frame, environmental measures which maintain the long term access to natural resources are key elements of building trust. Today, sustainability as a core value is well accepted from local to global level – in principle, but not in practice. However, today greed, corruption and short term self-interest undermine this value and therefore undermine trust again and again.

Responsibility of individuals and institutions means to balance individual and community interests from the perspective of furthering the common good. Responsibility is an expression of a relation: power is entrusted by an instance to a person or an institution. The person or institution with the entrusted power is responsible toward the instance. The person or institution has to respond (same Latin word source as responsibility) to the needs and expectations of the instance. These instances are the electorate for the elected politicians in a democracy, the shareholders and the other stakeholders for the entrepreneur, the parents for the child and God for the believers. Trust is built, if the entrusted power is used in a responsible way towards the instance who entrusted the power. Trust is abused and destroyed by the abuse of power in an irresponsible way.

Justice is based on the equal treatment of all human beings which is the foundation of all Human Rights. Care and compassion is a basis for justice. Justice on the other hand enables a fair distribution and access to caring and sustainable communities. Different aspects of justice can be distinguished which show that justice is not just an empty word, but an ethical value which is important for decision making and building trust in many aspects

of the society. Some are more relevant in the private life, others more in professional or political contexts, but all are interrelated. Let us explore this with the example of Climate Justice

Example: Building Trust by Ensuring 'Climate Justice'

After the global negotiations on a new climate convention in Copenhagen in 2009 and recently in Cancun in 2010 failed, it appears as if the problem of climate change cannot be solved. Lack of trust in institutions and persons is a tragic result of this. But trust can be built if the above mentioned values are taken seriously. The following 14 criteria can be followed to ensure 'Climate justice':

- ◆ **Capability-Related Justice:** It means that every person and institution has the duty to contribute to solving problems on the basis of their capability. This means that everybody can and should contribute according to his/her physical, economical, political, intellectual and spiritual capabilities. An economically strong person, institution, company or state has to contribute more than an economically weak person, institution, company or state to solve the climate challenges.
- ◆ **Performance-Related Justice:** It means that every person/institution who/which performs some activity for the other (such as the production, trade, sale or disposal of a product or service) must be given their due (e.g., salary) on the basis of their performance. In the context of climate change, this means that an activity which reduces greenhouse gas emissions is a good performance and should be rewarded commensurately.
- ◆ **Needs-Related Justice:** It means that basic human needs and rights (i.e., leading a life of dignity and the right to food and water) should be taken into consideration for every person and institution. With regard to climate change this means that every person has the right to survive and be supported to manage adaptation to climate change independent of his/her capability and performance.
- ◆ **Distributive Justice:** This ensures that access to resources, goods and services is distributed fairly, taking into account the balance of capability, performance and needs. This means related to climate justice: Financial or other resources to decrease negative effects of climate warming on human life should be distributed first according to needs, also taking into account performance and capabilities so that the overall disparity between people becomes smaller and not larger.
- ◆ **Justice as Equal Treatment:** This means that all human beings have the same human rights and the right to equal treatment independent of capabilities, performance, needs, origin and characteristics (such as gender, color, race, religion). This means related to climate justice: Climate related measures related to their prevention, mitigation and adaptation have to give equal treatment to all the people affected.
- ◆ **Intergenerational Justice:** It means sustainable use and fair distribution of resources, as well as reduction in and fair distribution of ecological burdens between generations living today and future generations. This means related to climate justice: Decisions have to respect the need for a life of dignity for both the future generations and the generations living today.



- ◆ **Participatory Justice:** It means fair, appropriate participation in decision-making of all those affected by a problem and by decisions. This means related to climate justice: Decisions on climate related policies should be taken by democratic participation of the population and its representatives on different levels, from local to global.
- ◆ **Procedural Justice:** It means calculable, constitutional (publicly and privately) regulated, transparent, corruption-free and thus fair procedures in all interactions. This means related to climate justice: The decisions related to global warming and its implementations (such as access to financial resources, climate related taxes or incentives, media information) have to follow the mentioned criteria of procedural justice.
- ◆ **Functional Justice:** It means a fair and optimal relation between needs of persons and structural necessities of institutions, processes and resources. It is a question of functional justice, where, when and to whom to allocate how much and what kind of resources. This means related to climate justice: Functional and organizational aspects of allocation and distribution of limited resources is key for a fair solution to climate challenges.
- ◆ **Punitive Justice:** It means the punishment of actions which violate justice. The goal is retaliation, determent or overcoming of existing injustice. This means related to climate justice: Where climate justice is violated – and this violation is ethically as severe as other injustices – measures of punitive justice have to be taken into account as for other injustices.
- ◆ **Transitional Justice:** It means

provisional justice in transformation societies where ordinary, regular institutions and procedures may be absent or in reconstruction (e.g., in post war situations or after a revolutionary change of the system in a society). This means related to climate justice: in exceptional situations such as after emergencies, accelerated procedures for decisions and aid and exceptional instruments such as amnesty (which is not impunity) may be required and ethically justified.

- ◆ **Restorative Justice:** It means a common solution of the perpetrator/s and the victim/s in order to restore justice from occurred injustice by compensation, reparation and/or reconciliation. This means related to climate justice: Climate injustice takes place daily because those who suffer most from the negative effects of climate change are not those who cause it. Decisive and courageous measures from those who cause the pollution, especially the industrialized countries, would be measures of restorative justice.


- ◆ **Transformative Justice:** It means a process of transformation and renewal of reality towards justice, especially to overcome situations of injustice. It is a creative and ongoing process which goes beyond punitive or restorative justice. This means related to climate justice: Climate justice is not a single decision or act, but rather an ongoing process which leads to a fundamental transformation of societies in their relations, use of natural resources, distribution of goods and services and sustainable policies. Climate justice is not the result of one or the other isolated

action but a holistic process of transformation.

- ◆ **On Time Justice:** It means that justice is time bound. If a measure is taken too late and the patient or victim dies, it results in injustice and it is difficult to restore justice. This means related to climate justice: to prevent and mitigate further climate victims, measures have to be taken on time. The fast climate warming needs steps on time, now. The time factor is one of the most important to implement climate justice.

Why Ethics and Values Pay in the Long Run?

For individuals and institutions such as companies, ethical values are not just nice to have, but rather the foundation for trust and therefore for success. Ethical enterprises have better economic and social performance as many studies show. Reasons are: Higher stability/lower corporate risks (security gain); lower interaction and friction costs, e.g., through strikes, crime, monitoring costs (productivity gain); higher productivity through the identification of personnel with the company and through lower fluctuation (motivation gain); strategy with a long-term basis (sustainability gain); higher consumption of ethically produced goods (turnover gain); advantages on the capital market with ratings (capital gain); wider acceptance among social stakeholder groups (image gain); in the long-term, lower external costs (economic gain).

Personal and institutional behavior based on values and virtues builds trust. Trust builds relations, strengthens reputation, reduces risks and can lead to long-term success. 

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So, What Do We Do Now?

Stopping and Starting Over

This is an incredibly important time in history. The world has gone through a massive shake-up. Industries have been tossed up and down and all around. The economic hurricane has blown over many existing structures and careers. The storm is over, and now the rebuilding has begun.



The economic tsunami that began picking up speed in December 2007 and swept around the world with devastating force from October 2008 to April 2009 has died down. What's left now are many organizations that have been devastated or destroyed and individuals who have huge gaping financial holes where they once had solid financial fortresses. The flow of credit that was the underpinning of consumer and business spending has largely dried up. We are at the starting point of a new way of life unlike anything we have seen in a very, very long time.

...and now for the good news. Consumers are paying off their credit card bills and saving

money at a far better rate now. People are becoming savers instead of spenders. Obviously this slows down the economic rebound to a far slower rate than what occurred after the dot-com bubble burst and the disaster of September 11, but it also means that individual families will be far more financially stable than they were back in 2004-06. Just as a person who has had a heart attack develops better eating habits, people around the world are developing better spending habits.

Many large businesses are stockpiling money to be ready for the rainiest day imaginable. Again, this slows down spending and economic expansion, but it also increases



So, What Do We Do Now?

the strength of these organizations for long-term success. While the short-term economy is still tough to operate within, the long-term economy is vastly more stable.

In essence, we are doing some very old-fashioned activities right now. We are postponing the purchase of everything we want in order to shore up our savings and eliminate our credit card debt. We are not investing in every wild idea that comes along, but instead we're being very selective both as individuals and as organizations in terms of what we are investing in.

...and so where do we go from here?

Establish NWR

This fall I coached a nine-year-old boys soccer team. Two nights a week we practiced for 90 minutes. Most of the time we played small-sided games of four versus four with makeshift goals. For the first five practices the boys spent a lot of time whining about what position they wanted to play and whether or not a shot was really a goal or not. After 15 minutes into the fifth practice, I announced, "We are establishing NWR." The boys looked at me with a stunned look on their faces. One boy finally said, "What is that?" I said, "NWR stands for the No Whining Rule. You are no longer allowed to whine about what position you're playing or whether or not we say a shot is a goal. Whatever the referee, which is one of the coaches, calls, that's what we're going to go

with." Suddenly the boys just focused on playing soccer, and the practices became a lot more enjoyable and much more productive.

As adults, we need to practice NWR. If I whine to myself about something for 15 minutes, I wasted those 15 minutes. If I whine to another person for 15 minutes, I wasted 30 minutes: 15 of mine and 15 of his or hers. If I whine to ten people for 15 minutes, then that's 150 minutes of wasted productivity. This whining thing can pile up very quickly. I think a lot of us whine too much.

Whining and complaining and criticizing have even become big business. Some of the highest paid radio and cable television announcers essentially spend their entire on-air time whining about this issue or that one. I'm not talking about people who are focused on improving an issue. I'm talking about people who simply use up their time complaining about stuff that they are not working toward improving. Imagine a huge crowd is cheering you on with, "Stop Whining, Start Playing."

The Ear Wax Removal Kit

Recently I whined a lot about loud noises. I went to Washington DC a few weeks ago to celebrate a company's 20th Anniversary. For the entire weekend, I kept saying, "What did you say?" over and over and over. I blamed it on the loud music. Last

Dan Coughlin

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So, What Do We Do Now?

week I spoke in Orlando, Memphis and Chicago. I couldn't hear what other people were saying very well at all. I whined about the poor acoustics everywhere I went. Then on Saturday night I went out for pizza with Barb, Sarah, and Ben. I kept

keeping you from making the necessary changes to become more effective? Is your organization steadily hurting its own productivity by whining about something it can't affect? Remove the wax from your career and your business and get on with

Write down exactly what you will do going forward. Do not feel compelled to continue doing what you have always done in the past. Feel free to do whatever you think is the best thing for you to do at this point in time. This is an incredibly

We are not investing in every wild idea that comes along, but instead we're being very selective both as individuals and as organizations in terms of what we are investing in

saying, "What did you say?" I blamed it on the loud restaurant. Then it dawned on me what was happening. The only common denominator in all of those situations was me and my poor hearing.

Barb said, "When was the last time you cleaned the wax out of your ears?" I said, "Excuse me," except I really did hear her. In the midst of all my whining about rooms being too loud, I had managed to forget one itsy, bitsy, teeny, weeny, little detail: cleaning the wax out of my ears. I stopped at Walgreen's and bought a \$7.99 Ear Wax Removal Kit. Several days later the problem was all cleared up, and I could hear again.

Is there a possibility that you are wasting time and energy whining about some aspect of your existence that is

the business of improving results in a sustainable way.

Stop and Start Over

I offer this advice in my articles about every 18 months. It's time to do it again.

Take out a blank sheet of paper and redesign your career and your business. You get to keep all of the knowledge, skills, and experience that you have accumulated in your lifetime. However, you don't have to keep doing anything the way you are currently doing it. Knowing what you know now and being given the opportunity to start your career or your organization over again from scratch, what will you do to generate the results you want both in your career and in your organization?

important time in history. The world has gone through a massive shake-up. Industries have been tossed up and down and all around. Rebuild your career and your organization from the ground up. The economic hurricane has blown over many existing structures and careers. The storm is over, and now the rebuilding has begun.

Knowing what you know now with all your experiences and skills in place, what are you going to do to generate sustainable success?

Write your answers on a blank sheet of paper, and then execute your plans as well as you can. ☺

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Prevailing Trust Through Corporate Social Responsibility in Spain

Demystifying Misleading Profit-Maximizing Paradigms in the Context of the Current Global Crisis

Debates over the scope of corporate responsibilities have raised an important theoretical question that goes to the purposes and roles of the modern companies. Do we constitute a company just to maximize profits. How do we balance the profit-maximizing interests, with corporate social responsibility and trust building? In Britain, the model seems to work outstandingly, excelling in Europe. How is the situation for Spain? This article explores these questions.



In recent years, corporate environmental and social responsibility has risen to the forefront of company concerns. Today, many companies are showing a serious and deep concern about adopting a policy regarding Corporate Social Responsibility (CSR), thus investing more and more on it as a near-future investment. Furthermore, a more careful scrutiny of corporate governance has brought out the implicit assumption that CSR and sustainable development matters and these have gained a solid place on the companies' agendas (Argandoña and vonWeltzeinHoivik, 2009).¹

Loss of confidence on the part of the shareholders in the companies is attributed

to technical reasons such as lack of transparency in the structured product content or 'opaque' annual company reports. The current legislation along the aid of the voluntary adherence to standards stands as a positive step forward. Annual CSR Reports have become a way in which companies can report CSR initiatives towards their stakeholders and the public in general. Many companies upload these reports on their respective websites. So this action can in fact, build and help to strengthen trust and support on behalf of people and

¹ Argandoña A and H vonWeltzeinHoivik. 2009, "Corporate Social Responsibility: One Size Fits all. Collecting Evidence From Europe". *Working Paper WP-834* (November). IESE Business School. University of Navarra.pp.19



stakeholders. Stakeholders' reliance upon the information shared depends on how transparent, clear and accurate this information is, as it represents the company's visible and plausible social, environmental and ethical performance. Thus, profit maximizing objectives and CSR policies must work together in order to strengthen and build trust for the company.

The Concept of CSR

According to Aaronson (2003),² CSR is defined as 'the business' decision making linked to ethical values, compliance with legal requirements, and respect for people, communities, and the environment. The Prince of Wales Business Leaders Forum defines CSR as 'the open and transparent business practices that are based on ethical values and respect for employees, communities, and the environment. It is designed to deliver sustainable value to the society at large, as well as to the shareholders (Aaronson 2003). The European Commission outlines CSR as A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment (European Commission 2001)³. Thus, it can be inferred from these definitions that CSR is a wide-ranging, brisk, polymath area of business with plenty of nuances and diverse points of view. In like manner, CSR is the business contribution to sustainable development aimed at improving the social, economic and environmental conditions (Argandoña A and H VonWeltzeinHoivik, 2009) of a given population or region. This means that when a company has achieved a positive economic profit and loss account and, therefore, has

increased its value, it should contribute to sustainable development with regard to the environment and the planet, always looking closely at the human rights. Generally, one can extract the single idea of CSR as 'doing the right thing even when no-one is looking' as cited anonymously on the web (Thomas and Nowak, 2006)⁴. Fortunately, this is a concept that is not beheld in any records, and anyone can pretend to claim or bolster to own the true and most prevailing meaning of it, nor the most valid. It is constantly changing and going under multiple transformations, which arise from the changing times we are living, thus adapting to the circumstances such as the recent global crisis, which led to a change or aggravation of social needs, environmental transformations, and a wide range of diverse ways of doing business such as microcredits for instance (Kase and Duarte Varela 2010; Duarte Varela 2010a).⁵ So CSR is in itself a complex agglomerate of a myriad of multidisciplinary interactions and the outputs, which can come up, are in fact both fascinating and challenging.

How Does the Situation Look Like for Spain?

Today, Spanish companies are increasingly going global, and this undoubtedly concerns the country about the image of Spain that is being shown by these companies abroad. Spanish businessmen are increasing in number day by day. These businessmen have to realize that business success does not depend merely on the maximization of profits in a short period of time, but on adhering to responsible policies and guidelines. And these companies have to

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He conducted and published on the investigations at the Canary Islands University Hospital Research Unit (HUC) in collaboration with Altus Pharmaceuticals, Boston, USA.

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² Aaronson SA 2003. Corporate responsibility in the global village: The British role model and the American laggard. *Business and Society Review*, vol. 108, no. 3, pp. 309-38.

³ European Commission. 2001. "Promoting a European Framework for Corporate Social Responsibility", *Green Paper*. Published by the Office for Official Publications of the European Communities, Luxembourg, pp.32

⁴ Thomas G and M Novak. 2006. "Corporate Social Responsibility: A definition". *GSB Working Paper 62*. Graduate School of Business. Curtin University of Technology.

⁵ Kase K and Ch Duarte Varela. 2010. One Good Turn Deserves Another: The Case of Dr Beat Richner. *Effective Executive*(February): 70-76p.





implement policies that ensure sustainability (Duarte Varela, 2010b)⁶.

As for Spain we could refer to the situation in the BBVA Bank, which aims to build trust within the current context of recovering from the global crisis, with the premise of working towards a better future for people. This motto has become a strong and meaningful message to both clients and the general public. It seeks to forge and bond emotional ties, which will generate trust and support whilst dealing with its target audiences, with the ultimate goal of benefitting all of its stakeholders. BBVA Bank is truly committed to following CSR practices and constantly works to create the utmost possible value to its direct stakeholders, shareholders, customers, employees and suppliers, and to the whole of the society where the company has established itself. CSR represents for the BBVA Group a set of positive voluntary contributions – above what is required by law, which highlights the sectors to which it relates with. These contributions promote sound, stable relations which are beneficial to both itself and to its stakeholders (customers, employees, suppliers, shareholders, regulators and society in general), relationships that BBVA considers as one of the strategic elements of value creation and a stalwart competitive tool, leading to profitability and sustainability.

Another example where CSR is a key element of success and where the investment on CSR is considered as a visionary approach to profit maximizing and better social inputs is Telefónica, the Spanish broadband and telecommunications provider (Andreu, 2008)⁷. At

Telefónica, CSR is not conceived as an expenditure of funds. On the contrary the company spends on social programs and has a vision of how it can create shareholder value in the long term by exploiting the opportunities offered by the market, which promote business growth, apart from increasing the efficiency of the management. The company also claims of transparency in its operations as a key factor to win people's trust and reliance.

The company also considers its CSR Sustainability Report as the cornerstone for allowing both stakeholders and investors to have positive impressions regarding the company's performance and commitment towards the environment, social economy and welfare, among others.

Another example is Ferrovial⁸, a Spanish company that envisions its CSR policies as a strategic commitment, and attributes the company's sustainability, competitive-ness and reputation, which are aimed at generating a long-term value for all its stakeholders and the wider society, to 10 key factors. These factors include:

- ◆ Acting ethically and integrally, namely having an ethical and professional behavior in all operations as well as in governance;
- ◆ To implement practically in the work terrain the most up-to-date corporate governance practices, not losing sight of human rights within their sphere of influence;
- ◆ To strictly respect all the human rights, engage in constant dialogue with the stakeholders by improving all the channels of communication and being au courant in sustainab-

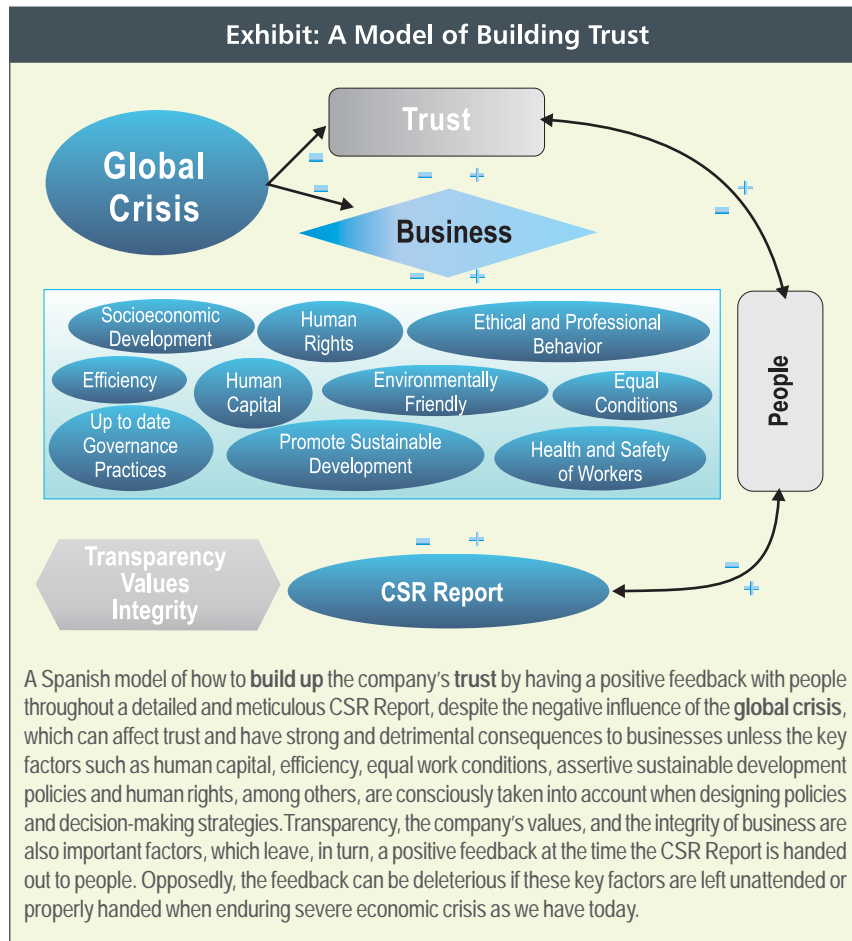
ility policies, participate in social projects and be newfangled in regard to the financial, environmental and social variables;

- ◆ To promote the implementation of standardized environmental management systems, also by encouraging the development and diffusion of environmentally friendly techniques;
- ◆ To minimize the impact of the company's activities on the environment, which can be accomplished by designing reliable tools;
- ◆ To take special care of the most precious resource, namely, the human capital, by hiring and motivating the best human resources as well as by the professional advancement of employees as a way to increase their efficiency, also by providing equal conditions to all workers and thereby avoiding discrimination;
- ◆ To care for the health and safety of the workers, taking care of working condition policies and their fulfilment, and to promote both innovation projects and scientific research development as essential factors for achieving competitive success and market dominance;
- ◆ To be innovative as for quality and services, constantly improving the processes thereof, and by encouraging suppliers and subcontractors to adopt gradually the CSR policies being adopted by the company;
- ◆ To consider the supply chain as a key strategy factor for its sustainable development;
- ◆ To support socioeconomic development, namely, investing in the community, to collaborate with NGOs, and to be environmentally committed as a global company (Ferrovial CSR Report, 2008) (See Exhibit).

⁶ Duarte Varela Ch 2010b. As cited in newspaper: "Hacia dónde se dirigen las empresas en España? La Gaceta de los Negocios. Suplemento económico". 10/27/2010. Sección: Especial. Madrid, Spain. p.31.

⁷ Andreu A 2008. Telefónica. The Pannel Discussion. Accessed on the December 14, 2010.

⁸ Ferrovial Corporate Responsibility Report. 2008. pp. 99. Accessed on the December 14, 2010.



Different interest groups, such as shareholders, employees, governments, partners and suppliers, NGOs and the society, have evolved an ability to interact with each other. Reports tell us about new energy challenges, climate changes and need for companies to commit to safety, ethical relationships, community-involvement, environmental management, proper resource use. We can continue to advance into the versatility of the concept with the help of one of the most prestigious publications in the field of CSR.

HR managers along with CSR experts are seeking ways about how to keep CSR strategies in consonance with the regular company strategies and the compatibility of CSR with profitability, technological

innovation, value addition, trust building and profit maximizing.

Nature is at risk in industrialized nations due to their high rates of consumption and pollution, and less industrialized countries, due to defective development leading to widespread poverty, which in turn results in an indiscriminate use of resources.

CSR as It is Today

Despite the 44 laws existent in the EU, in Spain it is nonetheless difficult to reach companies effectively both to invite them to report and apply internally and efficiently these laws in a practical rather than in a theoretical sense (Andreu, 2008). From my point of view we are getting into murky waters because such

a sensitive issue like this has become politicized. Quite often when something is unduly politicized, albeit with good intentions, there is a danger that the issue would not be addressed appropriately.

Since some parties have chosen to promote legislative initiatives on social responsibility, it has fostered the creation of a State Board of CSR and a parliamentary sub-committee to enhance and promote CSR. From my point of view, just a simple review of the plurality of areas included can make one realize that it is difficult, in any way that a corset law may serve to enhance and promote CSR.

Some have proposed that at least a clear CSR policy should be a prerequisite for a company to access government contracts. I consider that private investors, namely, investment funds, are no longer interested in investing in companies that build weapons or employ child labor. This pressure forces companies to publish CSR annual reports and upload them for public access on the web. These reports which are published along with the financial statements reflect the initiatives of the company to address environmental issues. However, all of these is flexible and is not yet required by law.

CSR requires planning and a profile, but also must be implemented, and this requires accurate count of the factors and also the responsibility of each of the factors. It is, however, to strengthen labor rights in the production lines in third-world countries, or for any actions like that, where we must find the right factors, perhaps by aiding NGOs with which the companies are already operating within the same area or sector.

Current Issues in CSR in Spain

In general we can say that CSR in Spain is growing and is being followed by more



and more companies every day (Duarte Varela, 2010b).

The Effects of the Crisis on CSR in Spain

No one can deny that people in general, consumers and regulators are increasingly interested in global issues, namely, climate change, rising food prices, globalization, overpopulation, environmental pollution, proper disposal of waste, the rational use of energy and ways to better use the scarce resources, just to name a few. This has contributed more and more to the augmentation and concern about what companies are actually doing to solve these problems. And so many companies have actually innovated new policies and norms to better preserve the environment and address all the above-mentioned issues. In general, companies view CSR strategically, always paying attention to economic value creation, and also have a rational attitude towards the environment and social needs (Duarte Varela, 2010b).

CSR for companies is, in short, a way to make a difference, an opportunity to highlight themselves with respect to their competitors and to innovate new products or services that best respond to environmental and social needs.

CSR is also a vehicle for growth, but with a totally different perspective with

respect to old times where the company only aimed to generate economic value and nothing more, regardless of interests of the social group within which it was operating.

Certainly, today's issues have captured the attention and concern of the businesses. Against all odds, we should not think about CSR as an element meant to be a waste of resources and funds amongst the economic crisis, but quite the reverse, CSR can actually be the channel through which a business would remain successful in the market, namely, without neglecting issues related to the environment, global economics, scarcity of resources, development, and so on. They are, in fact, subjects of action for businesses.

The existence of a global crisis does not necessarily mean that the CSR is to be left in the oblivion, but contrarily, it will remain as a strategic policy, which can be moulded and adapted to the current circumstances, just by looking at it from a different angle.

Unarguably, there will arise budgetary shortages, as funding sources and similar bodies will also experience such shortages, but the itinerary will remain 'responsible' for companies. Despite the crisis, the general opinion suggests that the inherent capacity to innovate and steer the unfoldment of CSR, both in Spain and

globally, is not going to diminish. (Duarte Varela, 2010b).

Conclusion

As I mention above, we will experience shortcomings in CSR activities. But there is one that persists, despite any economic situation, that is the ethical issues, and this must be seriously revised. However, much remains to be done. In terms of business, one would expect that the barriers that persist today in terms of inadequate policy implementation would have to disappear. Yet the permanence of old-fashioned marketing misconceptions or the misuse of social marketing, namely, implementing CSR as a purely marketing tool, is a wholesome blunder from any point of view.

Anyway, I personally behold that these malpractices will definitely be overcome, in dribs and drabs, on a daily basis and good practice will end up prevailing trust throughout the organization and will also lead to the formation of assertive, efficacious and unequivocal policies. Unmistakably, the steps to be taken by Spanish enterprises give light to a way, which will categorically be positive, aimed towards reaching social needs without unheeding the inherent entrepreneurial interests (Duarte Varela, 2010b). ☺

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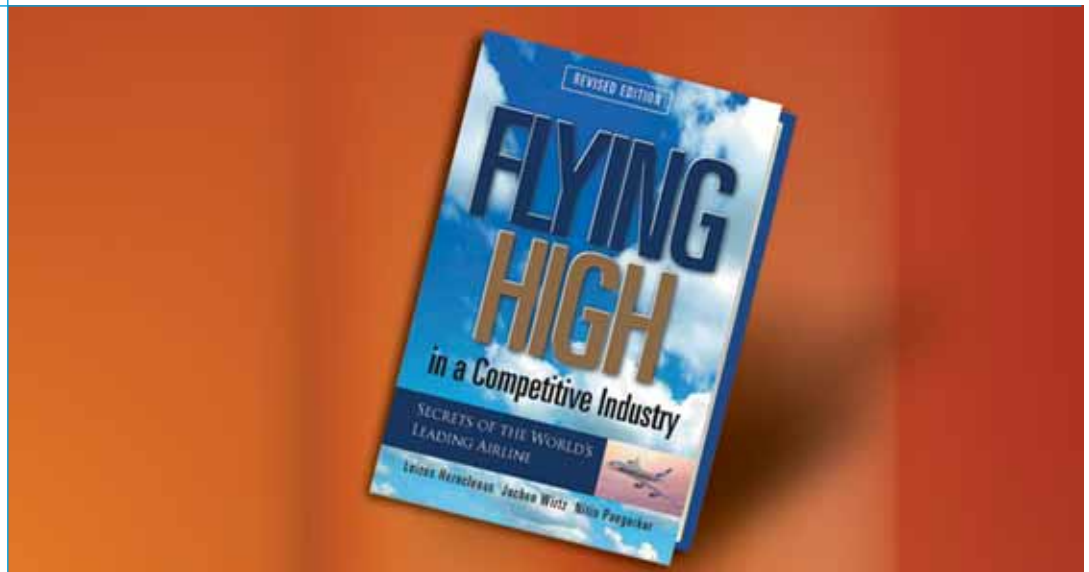
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The Power of Specialization, Division of Labor Between Firms and The Rise of the Service Economy

A Study

Why have services grown into the dominant sector of developed economies? An analysis of macroeconomic data shows that business services make the strongest contribution to the rise of the service sector. In this article, we integrate three related economic theories of the firm to explain business services in shaping firms, industries and economies. Business service providers relieve their clients from the costs of asset ownership, unlock management capacity and support their clients in navigating their firm's boundaries towards their most valuable business opportunities.



The Rise of the Service Sector – The Hidden Role of Business Services

Much of the growth in the services sector has been fueled by the growth in services. Empirical data and economic theory suggest that this is no coincidence but an inherent feature of economic development. In the early stages, economic growth was driven by vertical integration of assets and people under the roof of integrated corporations. As economies grew, competition increased and forced companies to focus their assets and competencies on areas where they enjoyed competitive advantages. For doing so, companies had to design organizational

structures to capture entrepreneurial opportunities and draw corporate boundaries around the most promising areas. As a result, many activities that used to be organized in-house began to be sourced from external service providers. Strategies of redrawing corporate boundaries started on a large scale in IT-outsourcing, when globally operating companies began to hire external business providers for managing data and information operations. Soon this practice became common in a growing range of corporate activities, including custodial services, customer contact centers, payroll operations, consulting for a growing range of expertise and even contract manufacturing. Today,



there is almost no business activity one cannot source from a specialized service provider in a competitive business service market.

To a significant extent, new business services do not necessarily contain substantially new or revolutionary activities. Rather, in many cases the crucial step in the evolution of a business service resides on the switch from internal to external sourcing of a process, activity, operation or asset. As a manufacturing company outsources to external service providers, the corresponding share of GDP and employees are being moved from the manufacturing to the services sector.

In the industrial age the name of the game was to search for productivity gains through smart division of labor within the firm. In contrast, productivity growth in today's service economy relies on the division of labor between firms. This perspective provides service science with a number of challenges and opportunities. First, empirical research has started to take note of the role of the reorganization of business activities as part of the rise of the service economy. Second, we are just beginning to understand the theoretical underpinnings and conceptual implications of the division of labor between organizations for the growth and management of businesses. Finally, one widely neglected implication of the division of labor and outsourcing of activities is the role of services in driving innovation and resulting productivity growth.

In the following sections, we first present evidence for the central role of business services in restructuring our economies. Second, we explain the economic benefits firms enjoy by redrawing their organizational boundaries and argue the case for a non-ownership perspective. Third, we discuss the theory of the firm, division of labor and the value of business services for service

innovation and growth using three related theories, namely the Property Rights Theory, Resource-Based View and the Entrepreneurial Theory of the Firm.

The Rise of Business Services

Macroeconomic research has started to note the structural contribution of business services to economic growth. For example, OECD studies have identified a continuously rising share of business services in adding value to the output of manufacturing.

Traditionally, economic research held that services lag in productivity behind manufacturing and therefore inhibit economic growth – a phenomenon called the “Baumol's disease”. This argument may apply to certain consumer services, where productivity may not be the purpose of service delivery or is hard to measure (e.g., an opera performance, a fine dining experience or a hair stylist). However, if services are supplied to businesses, they can significantly contribute to productivity growth of manufacturing as well as the overall economy. Indeed, studies show that business services used by manufacturing firms are the most important driver of productivity growth in developed economies, followed by the use of IT.

What drives the division of labor between companies? A non-ownership perspective provides a partial answer to this question as discussed next.

Why Business Services? The Case for a 'Non-Ownership Perspective'

When asked to define services, researchers tend to use specific characteristics of services like intangibility, heterogeneity, inseparability and perishability that reflect crucial management challenges of service businesses. An interesting feature of services that is not reflected in this standard categorization is revealed in the rise of

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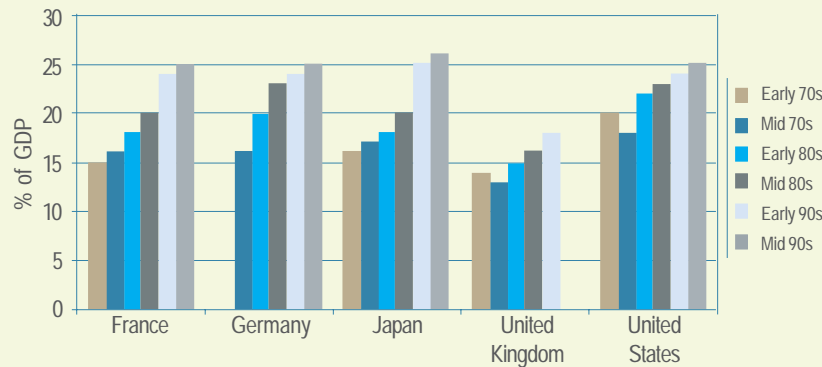
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Exhibit I: The Rise of Value Added by Business Services as Inputs for Manufactured Goods



Source: Adapted from Woelfl (2005), p. 22.

business services. In many cases, the most substantial change when substituting internal operations to an externally sourced service is the introduction of an organizational interface drawing a line between a service provider and its client. The fundamental event that has transformed a manufacturing support-activity into a genuine service process is the division of labor between the client and the provider. The crucial difference is that the client has delegated responsibility and managerial control to an independent firm.

This resonates well with one stream of service research that argues, services provide value by liberating clients from costs and burdens of ownership. For example, you can enable yourself to use a car either by buying or renting one. Most economic statistics would classify the first case as a goods business, and the second as a service business. Thus, the main factor differentiating goods-centered from service-centered transactions relies on the transfer of ownership rights. In this light, services are simply transactions without the transfer of ownership rights, in contrast to trading goods for money.

In that light, services are a response to the fact that ownership burdens its

holders with costs, responsibilities and liabilities that can outweigh its benefits. As a car owner you are exposed to fluctuations in market prices and dependent on its current location. These features make car-ownership unattractive for the occasional transcontinental business or holiday trip, but much more attractive for frequent commuting or spontaneous rural escapes. However, if companies perceive assets and people as a burden, why do they find service providers who are willing to take on these responsibilities? One misleading implication of the rental-access paradigm would be to conclude that ownership is disappearing entirely in the service-economy. While services free users from burdens and responsibilities associated with ownership, service providers often assume ownership and see this as a business opportunity. Business services build on the reallocation of ownership from clients to service providers, rather than mere replacing ownership. But when and why does the reallocation of ownership and responsibility imply benefits? This question is at the heart of three related research streams on the theory of the firm, which we present next.

Theory of the Firm, Division of Labor and the Value of Services

Services and the Division of Labor Between Firms

Why does it pay for firms to use external service providers in addition or as alternative to their own operations? In economics, this question has puzzled several research streams in the wider field of the theory of the firm. Why do firms exist at all within an efficient market economy? What costs and benefits affect their organizational boundaries? What events or forces call for redrawing these boundaries? These questions call for a clear understanding of what a firm does. They also explain the value contributed by external service providers for taking on tasks or value co-creation. We discuss three major streams of research that shape the core topics and challenges of that realm:

- ◆ Property Rights Theory highlights the costs of ownership as a crucial factor playing in favor of business service providers who can act as the efficient owners of assets.
- ◆ The Resource-Based View identifies the unlocking of valuable management capacity from unpromising non-core activities as an important value proposition of business service providers.
- ◆ Finally, the Entrepreneurial Theory of the Firm conceives the use of external service providers as an important way for firms to navigate their organizational boundaries to their most promising business opportunities.

We discuss these three interrelated streams more in-depth in the subsequent sections.



Property Rights Theory: Services as an Alternative to Ownership

From its early days, service research has highlighted the value of services as an alternative to owning goods for obtaining value. A firm has the alternative to use its own assets and employees to produce the services it needs, or to buy these services from external providers. Property Rights Theory analyzes factors and conditions for optimal own-versus-rent decisions. At its heart, this theory is concerned with the efficient size and boundaries of the firm. The boundaries of the firm are defined by the ownership titles it holds for assets such as machines, inventories or intellectual property. An important implication for service research is a framework for deciding when a firm should use external service providers rather than its own assets and people.

This theory was developed for the analysis of economic issues arising from the shared use of assets. Assets are valued for their potential services. For example, commuting or leisure driving are part of a car's service potential, while potential valuable output produced is that of a machine. Property rights contain:

1. The right to use an asset (*ius usus*), for example using a machine for manufacturing
2. To change its form and substance (*ius abusus*), for example changing parts and components of the machine
3. To obtain income or other benefits (*ius fructus*), that is, renting the machine to a third party, and
4. To transfer all residual rights, for example selling the machine (*ius successionis*).

Contracts can be used to share valuable assets, define the terms of property rights across several parties and thereby put assets to their most valuable

use. This works under the assumption that contracts accurately reflect the different valuations of the various services of an asset to the sharing parties, and that enforcing the terms of contracts is costless. In such a perfectly-known world, the institution of ownership would not matter as all economic factors simply rent what they need according to their valuation, thus ensuring the highest valued use of an asset. But according to some researchers this is unlikely to hold, as writing and enforcing contracts is costly, and fundamentals of valuations are exposed to uncertainty. Under such conditions ownership does provide value.

When is it beneficial not to own an asset? The Property Rights Theory highlights factors that render owning assets inefficient and play in favor of external service providers. Mainly two types of costs decide if using a service provider is more efficient than ownership.

First, measurement costs need to be incurred when determining the value a collaborating partner contributes in order to enforce the terms of a contract. If the output of an activity can easily be measured and enforced, service contracts tend to be the more efficient solution. If measurement costs are high, or measurement is unfeasible at all, the firm is better off by assuming ownership and managerial authority.

Thus, industries tend to favor vertical integration to explore value mechanisms in early stages of their life cycle, while the share of externally sourced services rise once critical value drivers are well understood and performance measures are easily established and maintained. Once managers are able to define performance indicators, establish measurement methods and enforce contract terms, external sourcing of a

service becomes a feasible option and is increasingly used.

Second, governance costs affect efficient allocation of property rights. Governance costs accrue from investments in specialized assets such as a highly customized machine. In the hands of external service providers these assets become a powerful negotiation weapon, enabling them to hold-up their clients and reallocate profits.

Thus, the 'Property Rights Theory' proposes the guiding principle that users of specialized assets should be equipped with ownership rights that grant them residual control. From a governance-cost perspective, external sourcing is favored as soon as an asset class has lost its specific character. To summarize, the 'Property Rights Theory' provides an organizing principle by which ownership of an asset is efficient in the hands of the economic party, which is in the position to maximize its value. If not in this position, firms should use external service providers to contract for the assets' services. In maturing industries, assets tend to lose their specific character and companies become more capable of measuring value contributions. This leads to an increased division of labor between companies, where downstream companies tend to source a growing share of services from upstream service providers who specialize in asset-ownership. Industrial manufacturing is a point in case, where a growing range of assets is being managed by external service providers.

As a guiding principle implied by the 'Property Rights Theory', firms should assume ownership over specific assets, and crucial but hard to measure elements of the value creation process. Otherwise they should hire external business service providers.



Resource-Based View: Management Capacity and Growth Opportunities

The Resource-Based View emphasizes the aim for growth as a driving factor of the division of labor between firms, and highlights the role of management in shaping the competitive position of a firm. According to the Resource-Based View, the firms themselves are the tools and sources for differentiation. In their pursuit for growth, firms strive to build unique capabilities in order to capture rents not available in undifferentiated markets. One important strand of the 'Resource-Based View' investigates how companies can cultivate resources that drive their differentiation. These resources include "those (tangible and intangible) assets which are tied semi-permanently to the firm," such as brand names, in-house knowledge of technology, employment of skilled personnel, trade contacts, machinery, efficient procedures and capital. A key force driving the growth of the firm is based on the perception of growth (or differentiation) opportunities by the firms' management. Management shapes the growth opportunities of a firm in two ways:

1. A firm can only target that fraction of its growth opportunities, that its management capacity allows it to address. Unlocking management capacity is imperative for taking on growth.
2. Unlocking management capacity requires a firm to prioritize its management's attention on areas that promise growth opportunities and delegate remaining areas to external service providers.

There are important implications of the 'Resource-Based View' for the rise of business services. A company's ability to exploit new entrepreneurial

opportunities is constrained by its managerial capacity. Service companies provide the means to delegate management responsibilities and unlock scarce management capacity of their clients. The vision of the 'Resource-Based View' is the intelligent enterprise that frees its management capacity for the pursuit of the most promising and profitable business opportunities, while delegating complementary activities to a network of world-class service providers. As a guiding principle implied by the 'Resource-Based View', companies should design their boundaries in order to focus on their core competencies. It highlights one genuine value proposition of business service providers: They empower the management of their client companies to focus on their most promising activities by relieving them from non-core responsibilities.

In sum, it provides a compelling argument by highlighting managerial capabilities as a crucial factor that limit growth opportunities of a firm and therefore calls for the delegation of managerial control to specialized service providers.

The Entrepreneurial Theory of the Firm: Shifting Boundaries of the Firm

While the 'Property Rights Theory' highlights economic efficiency criteria affecting the boundaries of the firm, the 'Resource-Based View' focuses on the role of specialization of management. But both approaches do not tell the whole story. If we want to understand the evolution of business services we need an approach which puts ownership in a dynamic perspective. 'The Entrepreneurial Theory' of the firm provides salient elements for such a framework.

Broadly conceived, entrepreneurial action is concerned with the exploration and exploitation of profit opportunities arising from either un-served needs or un-used resources in an economy. Firms are Janus-faced, one half consisting of individual perceptions and visions of business opportunities, and another half consisting of organizational resources, rules and routines that help them shape and exploit profit opportunities. While everyone has some potential for acting entrepreneurial, economic organization can provide a substantial leverage for entrepreneurial activity. For example, the evolution of the mass market for automobiles was not only driven by a visionary entrepreneur who perceived the potential for individual means of transportation, but also by the design of an organization that mobilized capabilities and resources for its exploitation. In a nutshell, entrepreneurs are the lifeblood directing firms to profitable opportunities, while firms provide entrepreneurs with capital, resources and an infrastructure that can enhance entrepreneurial opportunities and their exploitation.

This entrepreneurial perspective has decisive implications for the role of ownership and property rights in shaping economic growth and the demand for business services. From an entrepreneurial perspective, ownership is a tool for shaping and directing entrepreneurial processes like experimenting, exploring and exploiting business opportunities. Firms use ownership in order to direct resources to expected higher valued uses, based on an entrepreneurial vision and a business model that contains a unique value proposition. Equity-ownership is the instrument to reap the returns and



bear the risk entailed in entrepreneurial projects and thus is used to attract resources for the deployment of entrepreneurial projects. Ownership is linked to the scope of entrepreneurial projects for a firm, and subsequently shapes its boundaries on resource markets. From an entrepreneurial perspective, resources and activities not related to the entrepreneurial focus of the firm should be sourced from external service providers.

In this perspective the opening-up of business models and the rise of business services are flip-sides of the same coin.

◆ Business services provide the means to draw efficient boundaries of the firm. Service providers generate value by acting as owners of assets, employers of people and owners of processes that have lost their central position in the investment agenda of a firm. 'The Property Rights Theory' highlights the efficiency conditions (i.e., measurement and governance costs) of an observed situation in a snap-shot mode and determines the efficient division of labor between the provider and the client.

◆ Business service providers enhance

Entrepreneurial projects are also the dynamic factors that change efficiency conditions investigated by the 'Property Rights Theory'. Thus, the 'Entrepreneurial Theory' of the firm identifies the common denominator of the diverse perspectives concerned with the boundaries of the firm. In a nutshell, business services support their clients in navigating them to the most promising business opportunities.

There is one common implication of these three streams of research and theories: Division of labor between

Division of labor between organizations drives business performance, economic value and growth

Their appetite for growth and the pressure of competition forces firms to direct their capital to the most promising business opportunities. This implies a continuous review of core-activities and a subsequent restructuring process. Firms started with the outsourcing of routine operations and are now in the position to use external service providers for almost any function, operation or asset-class. As a result, firms are transforming into 'intelligent enterprises' that can rent almost every conceivable activity or asset type as a service, while focusing on areas of un-served needs of customers or underused potential of resources.

Conclusion: Value Drivers of Business Services

What drives the rise of business services and the subsequent growth of the service economy? Building on the theory of the firm, we have identified the following key economic forces:

the growth potential of their clients by freeing their management capacity to focus on the firm's most promising growth opportunities. 'The Resource-Based View' implies a more dynamic perspective revealing strategic shifts of a firm's boundaries towards market opportunities.

◆ 'The Entrepreneurial Theory' of the firm proposes the firm as a tool for entrepreneurs to explore and exploit business opportunities. To some extent it shares the dynamic perspective and core arguments of the 'Resource-Based View'. It highlights ownership and contracts as tools for entrepreneurs to assume control (and the entrepreneurial risk and returns) through equity of their most promising projects. This theory thus provides an explanation of a firm's shifting boundaries that are shaped in response to shifting perceptions of entrepreneurial opportunities.

organizations drives business performance, economic value and growth. Businesses and economies thrive when organizations focus on areas where they can make a difference, be it a machine, a manufacturing process or a specialized area of knowledge. Service-based enterprises get the triple benefit of having professional companies managing their assets and resources, the unlocking of management capacity to pursue growth opportunities, and efficient access to assets and activities that are not critical for capturing core entrepreneurial opportunities. As such, business services are a salient feature of venturesome economies pushing the boundaries of economic growth and development. ☺

Note: This article is based on a earlier publication by Michael Ehret and Jochen Wirtz, "Division of Labor Between Firms: Business Services, Non-Ownership-Value and the Rise of the Service Economy", *In Services Science*, Vol. 2, pp. 136-145.

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Knowledge of Followers

Does It Matter for Leaders?

Leadership comes into existence only when there are followers. And nothing makes a leader more successful other than having followers who can always tell the truth, even at the cost of their safety. It is only when followers say the truth and leaders willingly listen to them that organizations achieve success.

It is commonsensical to understand followers as not leaders. They are “subordinates who have less power, authority, and influence than do their superiors and who therefore usually, but not invariably, fall into line.” Normally, people in the subordinate positions go along with those who are superior to them. In other words, followership is the response of those in subordinate positions to those in superior ones. Which is why, followership “implies a relationship between subordinates and superiors, and a response of the former to the latter.” Incidentally, in the 1940s and 50s, authors like Erich Fromm, Theodor Adorno, and others came up with an argument that followers achieved their “social adjustment by taking pleasure in obedience and subordination.” And its obvious fall out is, it is often considered in organizations that followers are not important, or are much less important than leaders, despite the fact that leaders and followers are inextricably enmeshed.

That said, with the kind of convergence taking place all around in today’s globalized world and the information revolution resulting in fast diffusion of knowledge, followers are now being considered more important. At least, it is now certain that people in high places can no longer sit pretty and do what they want and how they want. Today leaders have become more vulnerable: if they go wrong, or do wrong they are likely to be punished. For, followers of today have become more bolder and more strategic,

says Barbara Kellerman, James MacGregor Burns Lecturer in Public Leadership at Harvard’s John F Kennedy School of Government. She goes on to say in her latest book, *Followership*, “This change, this small but potentially seismic shift in the balance of power between leaders and followers, constitutes a caution: leaders who ignore or dismiss their followers do so at their peril.”

That is what Valmiki, the saint poet of India’s epic, *Ramayana*, indeed conveys through the character, Ravana, the mighty King of Lanka. At the beginning of the battle with Rama and the monkey battalion, Ravana, presiding over the court, seeks advice from the council for waging war against Rama successfully. As is the case with majority of the followers ‘to go along with what their leaders want and intend’, the court sings in chorus: “Lord, you have in your armory many invincible weapons. Even in the nether world you have conquered Gods. So why should you fear the mere mortals? Lord, your son Indrajit has vanquished the king of Gods, Indra. Surely, your son alone can defeat Rama and his followers. Indrajit, Prahasta, Durmukha, Vajradamstra, Nikumbha, Rabhasa and Mahaparswa from our army can subdue both the brothers.”

Contrary to the common behavior of the followers, Vibhisana, a subordinate and, of course, the brother of king Ravana, advises him differently: “There is no power on earth which can put down Rama. It is not at all desirable to make enmity without any purpose. The only way of escaping from the



wrath of Rama is to return Sita and seek his forgiveness. I pray you to renounce at once your anger, which only destroys happiness and virtues. Pursue righteousness, which enhances joy and fame. Be pacified so that we may survive with our sons and relations. Please therefore let Sita be restored to Rama.” Wondering if it has made any impact on the king, Ravana, Vibhishana continues to plead: “Your lustful obsession has blinded you to truth and justice. Please do not let such craving ruin you and your race.” But Ravana summarily rejects his advice. In a rage at Vibhishana’s advice, Ravana banishes him from the court. As a result, Vibhishana deserts Lanka and its king Ravana seeking asylum in Rama’s camp. Not only that, after joining the opponent’s camp, Vibhishana reveals the weaknesses of Ravana’s armory and, of course, aids Rama’s camp in winning the battle.

Now the question is: Are we to abjure disobedience? Or, abjure obedience? Perhaps, the right answer lies somewhere in between, for without some sort of obedience, no organization or group can perform effectively. Nevertheless, rethinking did emerge in the recent past about followership: Humility, authenticity, and responsive leadership have become the new buzzword of corporate world. Indeed, lot of research is being carried out on the phenomenon of ‘followership’. The pioneer in this direction is Harvard Business School professor, Abraham Zaleznik, who in his article of 1965, “The Dynamics of Subordinacy”, argued that “individuals on both sides of the vertical authority relationship” are important in defining how well organizations perform. He divided followers into four groups: one, impulsive subordinates – tend to challenge people in power, they can also be constructive having an ‘urge to create and achieve’, sometimes they might influence events; two, compulsive subordinates – desire to control people in

power but through ‘passive means’; three, masochistic subordinates – they like to submit to the “control and assertiveness of the authority-figure”; and, four, withdrawn subordinates – they care little as to what is happening at work. He then goes on to argue that these distinctions did matter in practice – of course, more for the leader.

Later in 1992, Robert Kelly came out with his book, *The Power of Followership*, focusing more on ‘exemplary followers’ who act with “intelligence, independence, courage, and a strong sense of ethics” – like the ones of Hanuman kind in *Ramayana*, whom Valmiki described as the most devout savant of Rama, the Prince of Ayodhya in exile. According to the ‘followership style’ Kelly divided followers into five distinct groups: alienated followers – think more independently, participate less in group activity; exemplary followers – think critically, and independent of leader but engage actively in organizational activities; conformist followers – content to take orders and actively engage in organizational pursuits; passive followers – low in independent thinking and in level of engagement; and pragmatist followers – they do question the leader’s decisions, but not critically, and prefer to hug the middle-path.

Kelly indeed campaigned more for turning all the followers into exemplary followers. This phenomenon is more evident in his later writings where he made it obvious that the best followers are certainly other than the “passive sheep”. He desired the followers to actively engage in helping organizations achieve what they are pursuing while at the same time think independently, if the situation demands, and “exhibit courageous conscience”. Similar views are aired by Ira Chaleff in his book, *The Courageous Follower*, who argued in it for followership-development rather than leadership development. Chaleff argues that followers have lot more power and all that they have to do is to muster courage to exhibit

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it in the context of organizational needs. It is the conscious opinion of Kelly and Chaleff that such exhibition of courage is essential to balance the relationship with leaders.

We come across such a follower, Kumbhakarna, who exhibits a rare courage of telling the leader – Ravana, the mighty king of Lanka – what he considers as right in the “*Yuddhakanda*” of Valmiki’s *Ramayana*, which, the leader, of course, does not like to listen. On being put to shame by Rama in the battlefield saying, “Ravana, I do not want to take advantage of your present helplessness. ... Go home and take rest. Come tomorrow and face me again”, Ravana, reentering Lanka, sends for Kumbhakarna to help him at this hour of dire need.

By superhuman efforts, the ogres succeeded in waking him up. Gaining senses fully, Kumbhakarna asks: “What for have I been roused by you with effort? ... Surely he [Ravana] would not rouse me, when asleep, for a trivial reason. Therefore point out in reality the cause of awakening me.” This very style of seeking information from the messengers of king Ravana, throws light on how actively involved in and concerned of the affairs of kingdom and welfare of King and his subjects Kumbhakarna is. A minister of king Ravana then apprises him: “A formidable danger from a mortal is pressing hard upon us. This Lanka has been laid siege to by monkeys and formidable is the danger to us from Rama, who is distressed on account of the abduction of Sita. Even Ravana himself was let go in an encounter with the word “Depart!” by Rama. He never encountered such a plight earlier.” Listening to them, Kumbhakarna asserts: “Conquering this very day the entire army of monkeys as also Rama and Lakshmana, I shall see Ravana.” But Mahodara, the foremost of

the ogres, with joined palms pleads with Kumbhakarna to “conquer the enemies in combat only after hearing the command of Ravana and weighing the advantages and disadvantages.” Kumbhakarna soon sets out to meet Ravana.

Seeing Kumbhakarna, Ravana receives him with great joy and clasps him to his bosom. On being asked “What for have I been wakened by you with effort?” Ravana, eyes rolling with indignation, speaks thus: “Rama, having crossed the sea, accompanied by Sugriva, is cutting at our very roots. Alas, how they have converted Lanka into a single sea of monkeys. They have killed many powerful ogres in the battle. Such is the fear engendered by Rama. Save us at this juncture, O brother, destroy them you today. For this you have been awakened. Nay, oblige me, ... save this city of Lanka, in which children and the aged (alone) have been left. For the sake of your brother, O mighty-armed one, accomplish a feat which is very difficult to be accomplished by others.”

Hearing the lament of Ravana, Kumbhakarna heartily laughs and says: “The same disaster which was actually envisaged by Vibhisana and others has now been reaped by you. Speedily enough has the fruit of your sinful deed – Sita’s abduction – come upon you. Ignoring the lessons of statecraft and war craft, you have not even paused to judge the strength of your enemy before fighting him, nor did you take into account the consequences in the sheer pride of your prowess... A king should take action only after considering what is salutary in consequence to him in consultation with his ministers who make their living by their intelligence and know the reality of things... People whose mental level is in no way higher than that of beasts and yet who have been allowed to take their seat among the

counselors desire all the same to express their views through sheer impudence without fully knowing the import of the scriptures. The advice tendered by such people ought not to be followed. Men who tender unwholesome advice in a salutary garb through sheer impudence should be excluded from deliberation as they mar the very purpose of the deliberation... A king who, disregarding the enemy, does not actually protect himself, is sure to meet with reverses and is dragged down from his position. The advice alone which was tendered to you on a previous occasion by your beloved consort as well as by my younger brother, Vibhisana, is salutary to us. Do as you will.”

Hearing the aforesaid speech of Kumbhakarna, Ravana, filled with rage says: “Why do you instruct me like a father or a teacher worthy of respect? ... It is futile at this hour to repeat that counsel which was not accepted by me at that time through misconception, obtuseness of understanding or through dependence on my strength and prowess. Let that alone which is advisable at this moment may now be thoroughly investigated. The wise do not at all grieve for the bygone. Nullify with your prowess the evil sprung from my misconduct, if at all there exists love in you for me or if you recognize your (own) prowess or this purpose of mine is deemed by you in your heart of hearts as supremely worth accomplishing.”

In reply, Kumbhakarna, attempting to restore his confidence in every way, gently submits: “Listen, O king! ... It is no use your giving way to agony... Such despondency should not be entertained in your mind, so long as I live. I shall exterminate him on whose account you feel agonized. Salutary advice, of course, must be tendered by me to you under all circumstances. And that which is good



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to you, has been spoken by me through kinship and brotherly affection. Nay, I shall do that which is fit to be done out of affection at this juncture by a brother – the wholesale destruction of enemies in combat. Today, I shall kill Rama... Through the destruction of the enemy in battle I shall dry today the tears of those who are bewailing the loss of their kinsfolk.” Thus Kumbhakarna assures Ravana to dispatch Rama to the abode of death-God.

That is Kumbhakarna, the exemplary follower of Ravana, the king of Lanka. According to Warren Bennis, the single most important character of a follower is the “willingness to tell the truth.” And that is what Kumbhakarna had vindicated when he said, “Salutary advice, of course, must be tendered by me to you under all circumstances”. After all, it is the disagreement of the followers with the leader that guarantees examination of a “wider range of possibilities”. Warren Bennis warns that silence often costs organizations and their leaders dearly. The episode narrated above proves that not only silence by itself, but also even a leader’s attempt to silence followers from saying what the truth is and his refusal to see the truth aired by followers, or for that matter by anybody, is equally dangerous, as the end of Ravana’s life – which, indeed is not ordinary, to quote Vibhishana, “Here is my brother [Ravana] who was in life a mighty person characterized by great qualities of bounty, valor and strength... he was a man who performed great austerities, and knew how to perform all the rites prescribed” – reveals.

There is another shade in Kumbhakarna’s character, which merits equal consideration. As Kumbhakarna is about to sally forth to battle, Mahodara intervenes, twitting Kumbhakarna for planning to go all alone to the battlefield

to kill Rama, and suggests Ravana a device to achieve his end without a struggle: “in the event of our enemy surviving and if we too survive after fighting a battle with Rama, we shall falsely proclaim that Rama and Lakshmana were killed and by celebrating it we shall make Sita believe the news. And, women being fickle, realizing her helplessness, Sita will seek your patronage.”

Hearing this heinous advice, Kumbhakarna, upbraiding Mahodara, says: “Your advice would always undoubtedly appeal to kings who are cowardly and devoid of intellect but account themselves as wise. All undertakings have always been marred by you people, who are cowards in combat, utter pleasing words and say ditto to the king. The king alone is left in Lanka, its exchequer depleted, and army destroyed. Nay, having found access to this king, enemies masquerading as friends have gathered round him. Bent on conquering the enemy, I hereby sally forth to the battlefield in order to redeem in a major conflict today the disastrous policy initiated by you all.”

Kumbhakarna’s character as reflected in this chiding of Mahodara for suggesting a dubious trick to Ravana reveals an interesting feature: “Morality”, as Bennis declares, “is not solely an executive function.” The importance of the underlying philosophy of Kumbhakarna’s uttering can be gauged better when it is juxtaposed with the ‘holocaust’: if only someone among the followers questioned the “bestial schemes of their deranged leader”, holocaust would not have taken place.

There is another interesting message that emerges from what Kumbhakarna said: the poet, appears to be warning Ravana that the leader too should know which follower is saying what, from what

perspective and be able to discern which is worth listening and which is to be shunned. This episode further vindicates how, as Milgram observed, “ordinary people (like Mahodara), simply doing their jobs, and without any particular hostility on their part, can become agents in a terrible destructive process.” And importantly, Valmiki, through this whole episode warns: leaders who dismiss their followers do so at their own peril.

In today’s complex business environment, where leaders are highly dependent on subordinates for good information, it is up to the followers to tell the truth, whether a leader wants to listen or not. Of course, in the organizational context, candor may sometimes be detrimental to subordinates – as it had happened with Vibhishana whom Ravana exiles when he suggests that Sita be returned to Rama in order to save the clan of ogres – but that does not, Bennis argues, albeit rightly, “relieve followers of their obligation to tell the truth”.

And good followers may have to perforce put their jobs on the line in the process of speaking truth coupled with an active engagement in the affairs of the organization just as it had happened with Kumbhakarna – it is only after telling the truth to Ravana that he, as an exemplary follower, went to the battlefield to fight Rama and did fight with all sincerity, and get killed too. Indeed, it is by speaking out the truth that even a follower displays streaks of true leadership. And nature being what it is, every one of us is a follower of one or the other, at one time or the other. Which is why, “the acts of those who obey orders play as important a role in human affairs as those who issues them”, says Barbara Kellerman. ☞

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