



LinKS@Wharton W9 -Crisis & Constructive Governance

Summary

MONDAY 8 JUNE

Tom Donaldson: Ethics & Board Leadership

Reasons for the Financial Crisis?

- Bad math or bad choices?
- Testosterone
- Overreliance
- “We must expect more precision than the subject-matter admits” Aristotle

Ethical/operational roots:

- Paying for danger/too much risk taking
- Normalization of danger – “When the music’s playing you have to get up and dance”. People become numb to the risk that is real
- Accumulating precedents – make people keep on increasing risk
- Culture that prevents openness
- Tech-shock on ethical norms – “The majority of people believe that even the smart people had no idea of the systemic risk”
- “Another view is that people knew the systemic risk, but thought they could get out in time.”

Belief that one’s organization is highly ethical

- The closer people get to top management, the more they find their organization to be ethical
- Thus, it is very important to consider how to communicate and involve employees

Stakeholder vs. Stockholder

1. The only goal of a company is to create profit
2. A company, besides making profit, has a goal of attaining the well being of various stakeholders, such as employees, customers, etc.

“When organizations try to manage, they want to put in place a lighthouse to control ethics. Compliance mechanisms are probably not the most important thing

Two ways of Managing:

- Rule only strategy vs. values & rules strategy
- Statistically, the latter do best!

Important Ethical Issues

- Culture is even more important than any compliances put into place
- “What don’t we talk about in our company?” – is a central question
- Someone being responsible for being the devil’s advocate
- Human (ethical) behavior is like a tea bag: You don’t know what color your tea bag is until you put it in hot water

Ethical Dilemma Cases:

- McCoy & Sadhu on the Mountain (printed in Harvard Business Review)
- The Milgram Obedience Experiments

Ethical Dilemmas in Decision Making

- High stress environment
- Dominant goal
 - Individual goal
 - Short or long term goal

- Social goal
- Rationalizing
- Sadhu is not in the circle of respect
- Absence of discussion
- When you have NO CLEAR role & responsibilities, people start inventing their own goals
- “You don’t go on the mountain without appointing a leader!”
- The disposition to obey/disobey authority is anchored in the human being

Strategies for embedding Ethics into the organization Culture:

- Challenge meetings
- Values Conversations
- Putting challenge as a part of the development process
- Install “Skip levels” sessions
- Be a role model for openness and transparency
- Fire people who clearly cross the line of ethics, no matter how productive they are

Most Common Issues of Ethical Misconduct

- Equity Funding
- Miniscribe
- PPenn central
- Insider trading scandals
- Bribery scandals
- Mutual fund industry
- Enron, Worldcom, Parme Lat, etc.

Russ Ackoff: Systems Thinking

Hedges Principle: “If you can’t solve the problem you’re facing, you’re looking at the wrong problem.”

Problems solving

- There are no problems, only unsolved issues
- We will not be able to solve the problems we created with our current ways of thinking without changing the patterns of thought - the concept that changes our way of thinking is systems

A System as a Whole

1. Each part can affect the behavior or properties of the whole
 2. No part has an independent effect on the whole
 3. Every subset can affect the behavior or properties of the whole and none have an independent effect on the whole
 4. “A system that is taken apart loses its essential meaning. You dissolve the problem when you redesign the system”
 5. or its environment to eliminate the problem
- Eg. If you take the best parts from all the best cars, do you get the best car? – NO, you do not even get a car! Because when a system is taken apart, it loses its defining function, behavior or properties, and so do its parts
 - It is important that management knows how the parts of the managed system interact (e.g. The top customer’s wife purchasing the least sold papers from the Paper manufacturer’s selection)

“So are you focused on the system or its parts? And do you look at both people and their interaction?”

Kent Smetters: The Financial Crisis: How We Got here and What You Should Do

1. Wave: Subprime
2. Wave: Stages of loan defaults
3. Wave: Option

Mortgage Payment System

- They loaned out the same original dollar around 30 times
- “It doesn’t take a lot of default to collapse this idea
- However, the correlation between different risks was ignored
- Mortgage disaster was foreseeable, but all signs were ignored

Fiscal Imbalance:

- What you own vs. what you're going to get
- Fiscal Imbalance reasonably high in DK – take these signs into consideration

TUESDAY 9 JUNE

Paul Schoemaker

“Ambiguity is when we don't even agree on what could happen”

The Importance of the Periphery:

- “When spring comes, snow melts at the periphery, because that's where it's most exposed.”
- “Leaders must develop a sixth sense, an ability to see around the corner.”

Peripheral Vision

“Giving up the illusion that you can predict the future is a very liberating moment. All you can do is to give yourself the capacity to respond to the only certainty in life – which is uncertainty. The creation of that capability is the purpose of strategy” (Lord John Browne)

- DO you see the weak signals or are you blindsided (“Gorilla video”)
- Don't look at the core, look at the edges
- It is about heavy strategies that win no matter what happens
- Easy to see internationally
- hard to implement
- The periphery is something you pay attention to
- Let's look at what you missed!
- Business is taking calculated risk
- Need to create space at the board level to discuss what we want to talk about
- We have to challenge the equilibrium
- Synchronized global recession
- Be humble to the things you don't know
- You have to develop a memory of the future to live through rocky periods

Scenario Planning

- Chaos and ambiguity requires new methods to frame the challenges and right questions
- You should trust the intuition of seasoned people. But what about tunnel sight?
- “Too much experience can lead to tunnel vision”
- The hope is that you have fantasy & your analytical competencies interact!
- Scenarios have to be based on both rational and irrational
- Have Multiple scenarios – cover a wide range of possibilities
- Represent diverse views – diversity is key
- Stakeholders: Who influences who?
- The system reacts to the interventions in the system

Example of Process for Scenarios Blueprint

1. Define challenges
2. Define time scope
3. Building blocks for scenarios – define trends & uncertainties)
 - Trend (e.g. Aging population)
 - Uncertainty (e.g. Election)
 - Choose 2 independent (NOT correlated) trends & uncertainties

Strategic Implications

Strategic compass for Profiting from Uncertainty

- Identify key success factors, generate strategic option, implement effectively
- Industries with high volatility and long time lines and high investment specifications
- The blue team makes the strategy work, the red team collects data against (con)
- 90% of projects should be killed!
- Create a learning culture where it is OK TO FAIL!

- Do we have enough pigs in our companies?
- Commitment is like buying stock, option is a call
- It is not the strongest of the species who survive nor the most intelligent but the ones most responsive to change!

WEDNESDAY 10 JUNE

Al West: SEI-The Future is Now

Short Term Imperatives.

- Cost control
- Focus on Growth
- Retain clients
- New services to existing clients
- New clients
- Concentrate on key market segments
- Retain key employees
- Maintain strong balance sheet
- Keep building for the future

SEI- With an eye toward tomorrow

Long-term imperatives

- Client intimacy
- Thought leadership
- Full transformational solutions
- Co-sourced win-win business model
- Accountable for total client experience
- Risk management

SEI- New Solutions for Target Markets

SEI moving forward:

- Q: "Do you have a corporate policy for ethical investments?"
- AW: "If clients ask for that, we do it. None of our clients ask for that."

- Q: "What got us into the crisis and what will take us out of it?"
- AW: "I think the main thing was cheap money."

"There is a lot of greed going on, but greed is a natural thing."

"Inflation is the next problem around the corner."

"It is not about the amount of money that you spend, it is about the signal."

Jerry Wind: Challenging Your Mental Models:

"Often you do not respond to reality but to the perception of your mental model. Mental models are critical to decision making!"

- The critical role of mental models: The reality of situations cannot change, only our mental models! – what we see is what we think!
- The major risk is that our mental models prevent us from changing the necessary things
- Critical Question: What are the implicit assumptions verifying what we do?

Idealized design:

- Every organization today is a collection of bandages. Organizations are accumulations to problems. It's incredibly powerful to imagine that you take everything apart and redesign from scratch. If you did this, you would get dramatically other solutions.
- Idealized design is backward planning – VERY POWERFUL!

Destroy your brand process:

- Is a process of taking people from different areas, bring them together (get them drunk), and destroy your brand = pointing at the problems & solutions

Experimentation & Innovation

- “I don’t know” is a powerful question!
- Learn
- Innovate
- Create an innovation culture where it is OK to fail
- Measures
- Confuse the competitors
- “Experimenting is never a question of resource constraint, but a matter of resource allocation!”

Experience process:

- Break resources into modules (least resources on high uncertainty/risk projects)
- Fail fast
- If success – scale big

Suggested Gender Equality Slogan:

- “You can’t afford only to hire male board members.”
- Look for analogies. Ex. Female instructors are used for training snipers

Are you capitalizing on the changing consumer dynamics?

Three key measures:

1. Feeling good
2. Meaning
3. Engagement

Jerry Wind: Business Models of the Future: Orchestrating Alliances

“Crisis offers opportunity to address fundamental changes within your organization.”

Why New Business Models?

- “If I were a banker, my least worry would be competitiveness from other banks. My worry would be other branches out-competing my area.”
- “There is NO optimal strategy. In today’s turbulent environment, NO ONE can develop an optimal strategy.”

7 Frameworks for new Business models:

1. Challenging the mental models underlying your business model
2. The customer driven model
3. The co-creation model
4. The open innovation model
5. The competitive value model
6. The holistic model
7. Network orchestration

The Co-Creation Model

You cannot expect to develop business models alone. The real opportunities derive from products co-created with the consumers. The real money comes from engaging with the consumer in co-creating new products.

- Fundamental change to the business model
- The consumers are actively involved in creating the valuable products
- In the last super bowl, the number one commercial was “Free Doritos”. – Consumer generated content
- Young peoples’ prime channel of generating news is texting, internet & comedy channels

The Open Innovation Model

- One of the most fundamental ways generating new business
- Requires the ability to change your mental model
- Examples of products deriving from O.I: IBM Thinkpad & Ipod

The Competitive Value Framework

The most important aspect by far is the moderator, not the technology

Three main characteristics:

1. Performance
 2. Price/Value
 3. Relationships/engagement
- Some of these dimensions are changing
 - The holistic business Paradigm
 - As you change your business model, you should change your revenue model
 - Business models and product models should be developed concurrently

The Network Orchestration Model

The best supply chain implies orchestration of suppliers in a way that they can deliver in seamless fashion the best offers to the consumer

- Eg. Lee & Fung does not have a factory, but established a network of 10000 companies around the world
- Eg. Boeing – using 900 suppliers coming from 17 countries
- The Foundation: the Changing Business Environment
- The Solution: Network Orchestration
- Different model: you want to develop you strategy for a network

Managing is balancing of control

Balance the need of the firm with the need of the network

The Keys to Network Orchestration

Competency to connect to network is essential

On management side – forcing to go outside to market place- Learning is central

Fundamentally, network orchestration will change marketing.

What frameworks can we use?

- Start thinking about what the implications of the 7 frameworks are
- <<<<<<<experiment, experiment and experiments with new business models.

THURSDAY 11 JUNE

Joe Santos: Global Strategy

“I was here as the crisis erupted and I followed it minute by minute. NOT seeing it as an issue IS an issue”

“You would be surprised how seldom I hear the word global, international, as if the world was NOT a problem. So is that one of the problems?”

We may not have a proper language to address this

Is this crisis similar to the ones we have had previously? Is this one very serious, not that serious?

- People don't have a clue. There is something different in this crisis that is unusual: this crisis was caused by managers! We would have a recession anyway, but it has been by managers
- We are not doing well in training younger managers. And we are not doing well in being elder managers
- In Europe, we have been blind copying the US models which are absolutely ridiculous as if we did not have your own.

Management has become global.

- As profit maximizing, companies cannot NOT have a global strategy! Even the small local news paper in Jutland
- Global strategy = understanding of globalization, now what they are talking about.

What is globalization?

- Global means TOTALITY (German word “algemeiner”)
- Immense opportunity & diversity
- “Speed is always awake”
- More network, more dimensions
- A kind of a mindset giving new opportunities by moving a border.
- Speed and transparency as global drivers
- The world is bigger than the world that surrounds it
- Interconnectivity: Taking an outside rather than an inside out perspective

- The reality. Interconnection of economies – anything you do has impact on others and vice versa
- Do we need more than one language to understand and built up cultures?
- Interdependence: It's all about building relations between people

What does this mean for a company?

- Globalization is reach, interdependence & dispersion of valuable knowledge.
- There is a perception in the socially constructed reality that speed is enhancing
- Hypothesis: "if you read about the use of blue copying papers from 30 years ago, there were companies where cods were being made with 20-30 current copies, because people wanted to send it to "everybody". Later on over the years, the amount of copies decreased and ended by the "rule" of 2-3 copies. In some years time, we will have learned how to use the email. It will take 20-30 years to learn. It will not change because it was always like that"
- "What is wrong is to think that a global world is the world we're in today. NO, we are in the process of creating it!"
- As leaders, "You are part of the elite that shapes what's going on!"
- Societal reaction to certain things is faster in US. Managers react faster.

The world is in a process of segmenting itself differently. I think the word becomes lake a matrix.

Management is about choice and acting differently than the usual.

We depend with the energy sharing of the environment closest to us.

We have an aesthetical approach to reality. As human beings, we are both body and mind. Our body's can only truly react to the people closest to us.

Conclusion

- The diversion of views shows that human being relations are now of the essence, NOT economics. It is not strategy but organization that matters. Business strategy is now for undergraduate students. Management at your level is about organizing!
 - Whether you like it or not, individualism is over. You are interdependent of others. So how do we shape collectively?
 - At your board meetings, you need to globalization as> reach, interdependence and dispersion
 - Before you try, you never discover.
 - If you are not a diverse group, you do not know how to work diversively
 - Knowledge is messy and sticky
 - Knowledge is partly context specific. You cannot share knowledge at a distance!
 - A lot of knowledge we have without knowing we have is. We just use it
 - There is a lot of knowledge in your company that you don't even know is there
 - Localization will be a challenge 500 years from now
 - You have to study a bit of philosophy to know about knowledge, eg. The nature of collective knowledge
 - We use things we have on the human level and transfer it to the collective level – which is nonsense
 - We use metaphors because we don't really understand collectiveness. We use what we know to understand what we don't know
 - Managers must be comfortable with making decisions that they don't understand.
 - Individual entrepreneurship is passé in a global world. In a global world there is no place where you find everything
 - Entrepreneurs act in total disbelief of the rest of the world
 - Entrepreneurs never design that is why they are entrepreneurs
- Eg. I know that the value of sushi to me is different from the value of sushi to a Japanese person. Is this a problem? NO"

A Global World

- Globalization is a process of increased interdependence between nations. Therefore a global world is a union of differences. It's "ONE WORLD", not a uniform world
- If we became all the same we would go and live in our villages. Why go and talk to other people if we were all the same? There would be nothing to learn!
- Globalization is interdependence – the integration of challenge. That is why we need managers.
- You'd better understand the nature of interdependence to realize that you need global strategy even though you don't seem to be global
- Companies integrate their output, then they integrate their plan.

One team at the top

- If the top is not united, the rest of the organization cannot be united. The uniting process is a top-down mechanism
- A collection of units doesn't work. The top must be one & the managers of the company must feel that

The World is "Flat"

- The current world is a world where almost the same opportunities are accessible for the person sitting in San Francisco & Paris.
- Of course, nations matter, and the more the world becomes global, the more national differences will be obvious.
- Please keep being Danish, Swedish or Norwegian and ultimately that will be your source of profit!

Todd Henshaw: Leadership

You will probably not fully understand the learnings that you take home with you from Wharton when you go home. But once you are home, in sudden moments eg. when having a conversation with a colleague, you will remember a conversation that you've had or a learning that you took with you.

Understanding Crisis

- Crisis is typically something we're in.
- Don't tell your people that you're available in crises - take action
- In the military, they put us in situation where there's probably no win

How do you separate leadership & management?

- Technical versus inspirational
- You can be appointed a manager, but you can only be elected a leader
- Management: push, leadership: pull
- It's very isolated to be a leader, management is more adaption in a Management: something you do, leader: someone you are
- We put leadership in a higher category than management. Everybody wants to be a leader.

Why is there a need for leadership in a crisis?

- You have shock, then reaction and you have to have someone to lead you through
- Need of direction
- Time is an issue – time to process,
- A leaders role expands to the
- Significant change
- Instability – unfreezing process coming from crisis that requires stabilization & framing

Opportunity in crisis

- Inherent motivation - Showing people what they're there for
- The best companies are those looking for opportunity in crisis

Learnings from the army

- Dealing with crisis, often used in org.
- "Getting good at surprises"
- Keep practicing Standard Operation Procedures (SOP). If you are not practicing, you are not prepared
- Living on that kind of string tends to make you think about what the first three steps are
- 50 to 70 percent of all US corporates have contingency/security plans

Leadership through crisis

- Idealized Influence, Inspirational Motivation
- You want to be the leader that other want to follow
- Leadership is not about you!
- People want to see that you are filling the model of a leader that they want you to be
- Be consistent. This implies trust, Do the right thing at all times. Not only when people are watching
- Underline that authenticity matters
- You have to be a human being to you act like a human being

- Leadership is about others. Focus on something to act on to lead others

Individualized Consideration

- Means knowing every one of your people. Not only their skills, but their mindset
- Caring bone deep. You can prevent much mistrust, underperformance, etc. by knowing people and caring about them
- Being comfortable with people knowing you
- By treating everybody differently, you treat people the same way
- Even when a crisis occurs, one person is probably not the right person to find the right solution

Intellectual Stimulation

- Sometimes you need to support failure
- You want the environment to be secure enough to encourage people to take risks
- Once there is instability, it is a lot easier to change people around
- I think that the manager tries to bring the routine back. Leaders are looking for the opportunity.
- A leader has to frame the setting so people do not lose sense of purpose
- Movie> Gettysburg (length 3 hours)

Judgment, Defining Decisions

- It paralyzes an organization when decisions are not made
- Decisions fall into 3 categories
- People / executive often have the hardest time in relation to people decisions. People find it very difficult to appraise talent. I am not saying that you do not have to support people. But you also have to listen to objective judgments
- Eg. Of poor decision making is George Bush keeping Donald Rumsfeld in office
- Strategy
- Crisis

Leader Thought Process

- A linear process is wrong. The world does not stop when you decide. Thus, the process cannot be linear
- There is no thought about how to develop leaders in process
- No consideration of stakeholders
- It is wrong to think that the
- As a leader you are an architect of your storyline
- What you are passionate about as a leader and what your organization is passionate about should be the same thing!

Judgment Process

- There is human drama associated with all decisions Leadership is a top down, but also bottom up process. You need to involve the actors
- Framing and naming the problem is important
- Some leaders think that they should decide and then leave the process
- Eg. of Personal Ideas, valuable storylines
- What we are passionate about is creating peace of mind, Stine Bosse
- To turn around our business models towards a greener strategy, 85, 15, Thomas Dalsgaard
- The grounds for modern life as we know it. Pushing the boundaries for less oil dependency. Trying to do it as cheap and good as possible for our customers, Svend Hardenberg
- What makes your company a company and how deep can you cut?

Stine Bosse: Leadership Reflections

- It is extremely important that if you do not know, ask!
- We are in this crisis because a lot of these high levelled people have been fooled. People act like lemmings. They follow the guys in dark suit without asking questions
- In some boards the attitude is that the CEO should know everything. This assumption is wrong
- You cannot investigate every corner, so you have to have trust

- If you have to do tough things or pretty dramatic things, then it is extremely important that you have your board on board!
- If the structure in the organization is incoherent with the strategy, change the structure. In dramatic change, get your board's approval
- 9 out of 10 people have roughly the same structure as I did
- Connect it to the people in your organization
- Recommended literature: 'Sensemaking in Organizations' by Karl Weick.
- "If you want to make sense in the organization you run, you might even take it to the society level."
- Gender issues. You can either choose to see it as a problem or as a possibility. Today it is crucial that you can communicate and reach people.
- One thing I will take home is the humbleness of the things we do not know. To making my board understand that they must say we do not know enough. We need to think in a global way
- It is not enough that we see ourselves in our cross border. We need to see each other in the global context
- We are not good enough at spending time debating what we know we do not know
- The connections and relations to the employees to connect with them. Eg. I am blogging with the employee and next year I will start blogging with the customers
- Earlier we said that we would live with the fact that we recruited the wrong persons. Today that is unforgivable.
- Is leading up my responsibility as a CEO to go to the board and say this, or is it a shared responsibility? I think it is a shared responsibility!