Foreword: making ideas work

Alistair Craven

Business & management is one of the world’s most studied subjects. In the UK it is the most popular degree of all. The demand for highly able managers has never been greater, and organizations are discovering that closely tied to this is an acute need for high quality management development.

But what form should this take? In the words of business legend Gary Hamel, “Can you imagine dramatic changes in the way human effort is mobilized and organized in the years to come? Can you envision radical and far-reaching changes in how managers do what they do?” He adds: “Don’t be dismayed if the answer is no.”

For managers in all walks of life, the daily reality is that routines “remain little changed from those which governed corporate life a generation or two ago.” Fads and “flavours of the month” can only serve to distract us from managing for today, and managing well. Unfortunately, this leads to something of a paradox. Thanks largely to the content revolution brought about by the Internet, businesses operate in an age characterized by “information overload”, yet simultaneously we are expected to equip ourselves with increasing amounts of knowledge in less and less time. Jonathan B. Spira, CEO of Basex Inc. (a trusted advisor to knowledge economy decision makers) states that knowledge workers spend 15 per cent of their time each day searching, and 50 per cent of these searches fail – at an annual cost of $6,000 per worker. A plethora of material and multiple avenues through which to find it can only serve to confuse, burden and overwhelm.

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Financial strategy: lessons from the US sub-prime crisis

As a result of technology that integrates global financial markets, many believe finance to be no longer a national but a world phenomenon. For simply at the press of a button, billions of dollars may "e-cross" national boundaries.

This is reinforced, for example, by the 1997 Asian financial meltdown. One of the probable causes of the Asian crisis was the upsurge of interest by US investors in diverting their funds to the emerging dot.com industry back home. That resulted in sudden, massive outflows of US$ deposits from Asian-Pacific markets. The downward spiral was due to a deeply rooted belief in Asia of the viability of investing in housing.

More recently, it is essentially the same picture in the USA with the sub-prime crisis: the over-confidence in housing as investments. The fact that both crises, one in Asia and the other in the USA, are rooted in people's simple desires to own better homes suggests there may be deep wisdom to be shared across frontiers.

Lesson one: "Do not put all bad eggs in one basket"

One of the most enduring concepts in finance lies in the traditional concept of having a well-diversified portfolio. Or as stated in a well-known saying: "Do not put all your eggs in one basket." The innovators of the sub-prime mortgages did exactly the opposite. It was the process of bundling that eventually led to catastrophic blunders.

Beginning with less than fully qualified loan applicants, the individual mortgages came from ordinary US people. These individual mortgages were then sold as a bundle. The final purchasers then aggregated these bundles into a package with graded slices. The innovative breakthrough lay in converting what were still baskets of bad eggs into triple-A (AAA), investment-grade, mortgage-backed securities. Clearly, one major lesson from the sub-prime phenomenon is how enduring such ancient, many-centuries-old wisdom remains. Perhaps, post sub-prime, it should be rephrased for industry players: "Do not let others put all the bad eggs into one basket." That is, if you want to prevent more future crises arising from these kinds of innovations.

Lesson two: "Excessive demand outbalances risk and return"

One of the major problems that investors have with sub-prime derivatives is their perception of the inherent risks and returns. Even seasoned investors, including bankers, have failed to appreciate the very essence of the risk and return for this newly introduced (relative to stocks) financial product.

One of the most telling signs of the hidden, underlying dangers is how the sub-prime industry within the USA had ballooned. In less than a decade and a half, it shot up 30 times from a base of only US$20 billion in 1993 to US$600 billion by 2007.

"...blinded by demand that had far outstripped available supply, the agents went in a wild hunt for mortgages, in ways that were later condemned."
At that time, the then-newly appointed Federal Reserve Chief, Ben Bernanke, even expressed confidence in “advanced methods” for giving the banks much better tradeoffs. Or, to put it simply, US banks were to enjoy a higher return for the same level of risk.

This could not be the case, at least for those heavily involved in sub-prime derivatives. The major lesson is that because of the higher returns wrought through the innovative use of the “AAA” sub-prime derivatives, demand had mushroomed and grossly outstripped supply.

In particular, the professional investors in sub-prime derivatives had failed to grasp that the risk-return relationship is contextually bounded. Whilst the borrowers of the earlier offers of sub-prime bundles were less than perfect, the latter bundles were composed of many more fringe cases. These were thus far riskier. However, blinded by demand that had far outstripped available supply, the agents went in a wild hunt for mortgages, in ways that were later condemned. So long as housing prices were on an upward climb, there remained equity to be extracted from mortgages by the buyers; but not when the prices began to flatten and then headed downwards. That led eventually to the collapse of the housing market.

Lesson three: “Robustness of actions for resolving a crisis”

The Federal Open Market Committee (FOMC) lowered the rate by 50 basis points or 0.5 percent: exactly the same as the amount used by Fed on September 13, 2001 in the even more threatening 9/11 crisis. What were the psychological impacts of the FOMC’s action on investors globally? It would be difficult to quantify this on any numerical scale. There was, however, an alternative. Artificially intelligent (AI) models were used to assess the impacts of the September 2007 Fed decision, which was double the 0.25 percent that most economists had then anticipated. The results presented by the models revealed that almost all the currencies were predicted to strengthen vis-à-vis the US$ in the forecast horizon. Across the Korean Won, Japanese Yen, Euro, Pound, and Swiss Franc the forecast trends all bend sharply around October. The direction is unidirectional towards a weakening of the US$.

The interest here is not in predicting future trends of the US$. Rather, to demonstrate how FOMC intervention may be seen logically to have certain impacts on the US$. The forecasts are especially interesting because they are rendered objectively through machine intelligence. In the real world, however, perceptions of the future strengths or weaknesses of a currency are rarely objectively determined. As such, US regulators, despite their adherence to free-market principles, ought to realize the human dimension.

Lesson four: “Banks to stay respectable as banks”

The critical importance of taking quick, immediate, forestalling actions is clearly demonstrated by the case of Northern Rock (NR). The fault lines of the US sub-prime crisis had extended its reach across the Atlantic Ocean only days before September 18 2007. As one of the fastest growing and largest of British mortgage lenders, the “Rock” was under a severe threat of being pulled under by the enveloping US sub-prime turbulence.

The problem was not that NR’s operations were unprofitable, but that it faced a liquidity crunch. NR found itself to be in difficult waters because other banks simply were no longer willing to extend their credit lines. Photographs began to appear in newspapers all over the world of NR depositors in a panic to withdraw their savings. What was the implicit message? A substantial and fast-growing bank in the well-regulated British financial industry could be very near the edge. Fortunately, the Bank of England acted speedily to ensure the necessary liquidity.
In a metaphorical analogy of the sub-prime crisis with the avian flu epidemic, during financial crises, banks ought to perform the roles of “hospitals.” To fight the epidemic of the flu virus, the public looks towards the “hospitals” to stay healthy. If banks are by themselves badly “infected,” as in the case of NR, then public confidence will be deeply shaken. Imagine the downward spiralling effects: banks become endangered species as runs escalate into a pandemic when people become gripped with blind fear. Thus, the intervention by central banks, or the Federal Reserve in the USA, is clearly warranted. More than just to provide liquidity, it is to enable banks to stay respectable as banks.

**Lesson five: “Outcome of innovation, greed, and politics”**

The last lesson drawn from the sub-prime crisis comes from taking a gestalt perspective and focusing on the underlying drivers of innovation, greed, and politics.

A brief view of what happened to the sub-prime from 1993 to mid-2007 begins with a common scenario. It begins with the American dream of home ownership. From this there is the question of how the buyer may access the necessary funds. Typically, the bank evaluates the main sources of the buyer's income in formalizing the loan decision, in addition to taking the house purchased as security through a mortgage. In a rising home market coupled with extraordinarily low-interest rates, investors' appetites are whetted. The focus turns to demanding ever more of the “AAA” sub-prime slices. The bigger and faster-growing the institutional investors, the greater their insatiable demands.

Such investor behaviour has been explained away as hedging, diversification, and keeping to strategic plans for meeting investment targets. What is clear, however, is that the primary cause was not the inherently cyclic nature of the housing industry per se, but the American innovative enterprise itself. For in an age that esteems innovation, especially of the get-rich variety, the spotlight was on sub-prime derivative products. Unlike other kinds of products that may be tested for reliability in laboratories, it simply was not possible to construct social laboratories to test the sub-prime derivatives. Not surprisingly, even the Federal Reserve, the regulators, were taken by surprise at the wider social impacts of the sub-prime turmoil.

**Reviewing the five lessons**

“Do not put all bad eggs in one basket” extends the traditional wisdom to sum up the root cause of the sub-prime turbulence. Should any such “innovative” products be banned in the future? At least a bigger lesson has been learned from this event: to think more deeply and critically about new product innovations in the finance industry.

“Excessive demand outbalances risk and return” provides the insight of the inherently bounded nature of the risk-return profile of sub-prime mortgages bundled into asset-backed securities (ABS). When the load of demand turns excessive, the risk-return platform begins to give way and eventually collapses. This is a special breed of financial assets – one very little understood despite its pervasive popularity. Even so long-established a bank as the Hong Kong and Shanghai Bank faltered on the platform of sub-prime derivatives. Putting it differently, there were so many heavyweights looking for sub-primers that the market simply had to collapse!

Clearly, it was most fortunate that Dr Ben Bernanke acted in a timely fashion to bring some order to the possible chaos. That resulted in another useful lesson: “Robustness of actions in resolving a crisis.” This is tied to the other lesson for avoiding public panic and thus social turmoil, i.e. “Banks to stay respectable as banks.” For market liquidity in any society, money must flow like water among banks. However, that will come to a halt if banks no longer trust one another.

Finally, the lesson from the big picture of the sub-prime turmoil is the “Outcome of innovation, greed, and politics.” These elements are integral to any modern, striving human society's innovation.
Despite attempts to draw lessons from these events, it is anticipated that there will be yet another new crisis in the near future; even possibly, one engendered by sub-prime fears.

In the East, there was the Asian financial crisis; and now in the West, the sub-prime turbulence. Investors are on their toes, with many concerned about financial risks. They question not so much the why, what, or how, but are much more concerned about: “Who will be next – China?”

This is a shortened version of “Conceptual lessons on financial strategy following the US sub-prime crisis”, which originally appeared in The Journal of Risk Finance, Volume 9 Number 3, 2008.

The author is Check-Teck Foo.
IBM’s global CEO report 2006: business model innovation matters

George Pohle and Marc Chapman

IBM’s 2006 CEO study interviewed 765 corporate and public sector leaders[1] from around the world on the subject of innovation. One key finding was that competitive pressures have pushed business model innovation much higher than expected on CEOs’ priority lists. Business leaders are seeking and finding new ways to adapt their business models to remain competitive in their current industry – or to seek growth by entering new industries.

Methodology

The findings in this report are based on in-depth, consultative interviews with 765 CEOs, business executives and public sector leaders from around the world. IBM Global Business Services Partners and IBM Client Executives conducted over 80 percent of these surveys through face-to-face interviews, and the Economist Intelligence Unit conducted the remainder of the interviews by telephone (see Exhibit 1).

To ascertain whether the choices CEOs were making about particular types of innovation and key enablers had any correlation with financial performance, IBM looked at a subset of our sample where publicly reported financial information was available. For this subset, we compared their financial performance to that of an industry-accepted list of their nearest competitors (up to ten companies with similar revenue and publicly available information). Some of their competitors were CEO study participants, but most were not. By taking a five-year view, the researchers were able to identify which companies outperformed and under-performed the average revenue growth, operating margin growth and historical operating margins of their closest competitors. Throughout the analysis, IBM used these top-half and bottom-half groupings to look for notable financial correlations. In this report, the term “outperformers” refers to the study participants that are in the top 50 percent based on this competitive comparison, and “under-performers” are those that fall in the bottom 50 percent.

Business model innovation matters

Constant reinvention is the central necessity at GE. We’re all just a moment away from commodity hell (Jeffrey Immelt, Chairman and CEO, GE[2]).

We will fight our battles not on the low road to commoditization, but on the high road of innovation (Howard Stringer, Chairman and CEO, Sony[3]).

Innovation is . . . a multi-dimensional concept, which goes beyond technological innovation to encompass . . . new means of distribution, marketing or design. Innovation is thus not only limited to high tech sectors of the economy, but rather an omnipresent driver for growth (Erkki Liikanen, EU Commissioner for Enterprise and Information Society[4]).

The business model we choose will determine the success or failure of our strategy (CEO from 2006 study).
Because businesses are so often defined in terms of the products and services they take to market, their leaders have traditionally focused innovative energy there. But with technological advances and globalization presenting so many new opportunities – and threats – CEOs are looking to business model innovation to create sustainable competitive advantage and differentiation for them in their marketplaces. In fact, according to CEOs, business model innovation is now on par with innovation in operations and nearly as important as innovation around products and services (see Exhibit 2). As one CEO suggested:

The three areas are essential, equally important and inseparable from each other.

Some CEOs are now seeing business model innovation as an idea whose time has come. In one CEO’s words:

We are at the critical point where we should transform our business model itself.
Innovation types defined

- **Business model.** Innovation in the structure and/or financial model of the business.
- **Operational.** Innovation that improves the effectiveness and efficiency of core processes and functions
- **Products, services and markets.** Innovation applied to products or services or “go-to-market” activities.

While the fact that one in three CEOs is now focusing innovation efforts on the business model is surprising, our analysis of financial performance uncovered an even more interesting point. Companies whose operating margins have grown faster than their competitors’ over the past five years were twice as likely as their lower performing peers to emphasize business model innovation (see Exhibit 3).

**Business model innovation – as a game changer**

Four out of every ten business model innovators thought it very likely that a competitor with a radically different business model would upset the competitive dynamics of the entire industry. One CEO described his predicament in dire terms:

> Since 70 percent of our business is based on a service that will no longer exist as we know it, we need to adapt our enterprise to survive.

If you have any doubts about the legitimacy of this fear or the dangers of waiting too long to change your business model, just think about the Eastman Kodak Company. It has been a wrenching process for the company to “wean itself” from the traditional film business (with its 60 percent margins) and solidify its footing in the digital arena, with its stock price hitting a 20-year low in 2003[5]. But Kodak is focused on a business model turnaround. According to the company, 2005 marked the halfway point of its transformation, and it was also the first year in Kodak’s history when digital sales (at 54 percent of total revenue) surpassed traditional revenue[6].

CEOs were candid about the need to search out new competitive differentiators – even if that meant confronting a sacrosanct business model:

> In the operations area, much of the innovation and cost savings that could be achieved has already been achieved. Our greatest focus is on business model innovation, which is where the greatest benefits lie. It’s not enough to make a difference on product quality or delivery readiness or production scale. It’s important to innovate in areas where our competition does not act – by developing new competencies, alliances, etc.

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**Exhibit 3** Innovation priorities of under-performers versus outperformers

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<th>(Percent of emphasis)</th>
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<td><strong>Underperformers</strong></td>
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<td><strong>Outperformers</strong></td>
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Note: Based on operating margin growth over five years as compared to competitive peers
Global connectivity (created through telecommunications, IT infrastructure and open standards) makes new skills and partners accessible and practical to employ and enables entirely new forms of collaboration, and, thus, new business models. Of course, the same global connectivity also exposes firms to new competitors with very different business models and cost bases, which, in turn, can force business model innovation.

Instead of focusing on the threat, many of the CEOs we talked to described the top-line potential offered by business model changes. One CEO saw it as an absolute:

There’s no growth without changing ourselves and the industry itself.

So, what actions were CEOs taking to adapt their business models?

Major strategic partnerships and organization structure changes topped the list of most significant business model innovations (see Exhibit 4). One CEO explained that the success of strategic partnerships depends heavily on combining each company’s strengths in an economic model that benefits all parties.

We need to develop a business model based on strategic partnerships that creates value not just for our company, but also for the industry as a whole. We cannot do everything in this era of specialization.

As global connectivity reduces collaboration and transaction costs, companies are taking advantage of the expertise and scale that lies hidden in their own organizations and across the globe. They are assembling a business model fashioned from groups of “specialized” capabilities – combining internal expertise and scale through shared services centers with the capabilities of specialized partners to create truly differentiating business designs[7].

Exhibit 4 Most common business model innovations

(Percent of respondents)

- Organization structure changes
- Major strategic partnerships
- Shared services
- Alternative financing/investment vehicles
- Divestitures/spin-offs
- Use of a third-party operating utility

Note: This question was asked of business model innovators only.
Partners can be instrumental in establishing new business models

Porto Media is an example of a company that has relied on strategic partners to establish a totally new business model. The company had developed proprietary technology that enabled fast loading of digital content onto flash media cards. It envisioned a totally new business where customers could download music and movies onto these cards from kiosks at retail locations and play the content on compatible devices such as handheld players, phones or home media centers. The success of its new business model depended on two factors: Porto Media had to convince content providers that their content would be protected and used appropriately, and it needed a way to deliver that content to a network of retail locations.

Through collaboration with 4C (a consortium comprising Intel, IBM, Toshiba and Matsushita), Porto Media found a solution to its content protection dilemma. In response to requirements expressed by companies such as Porto Media, the consortium enhanced its Copy Protection for Recordable Media (CPRM) technology, creating the ability for content providers to specify flexible usage rules such as play only once, play until a certain date, or play over a set time period. Porto Media combined its proprietary loading technology with the standards-based content protection technology developed by 4C into an attractive offer for content providers. Porto Media also partnered to meet its second challenge. It is using a strategic partner to develop and manage the content delivery infrastructure that is core to its new business model[8].

Business model innovation delivers results

Cost reduction and strategic flexibility were considered top benefits from business model innovation – reported by over half of all business model innovators (see Exhibit 5). Business model innovation allows companies to specialize and move more quickly to seize growth opportunities as they emerge. Overall, CEOs’ rankings suggest that business model innovation is helping their organizations become more nimble and responsive, while, at the same time, lowering costs. One CEO explained:

Innovating with respect to business models and operations will not only create opportunities for cost savings, but will also lead to additional revenue generation opportunities.

There were other very positive implications of business model innovation that differentiated it from the other two types of innovation CEOs have as a focus – products/services/markets and operations. In our sample, the business model innovators were growing operating margins faster than those concentrating on other types of innovation (see Exhibit 6). Looking across the top actions business model innovators were taking, we found that companies
Innovating through strategic partnerships had enjoyed the highest operating margin growth. As one CEO remarked:

Reducing the cost base through cooperation models is important for any growth strategy.

Creating a variable virtual company

Lam Research is making strategic partnerships fundamental to its overall business model, creating what it calls a “variable virtual company.” Lam designs, manufactures, markets and services semiconductor processing equipment through more than 40 customer support centers in the US, Japan, Europe and Asia Pacific. In 2001, the company began shifting a significant portion of its cost to variable status through outsourcing. Today, it relies on partners for functions as diverse as HR, IT, finance and accounting, facilities management, customer service, indirect materials procurement, module engineering, and manufacturing. In 2003, Lam extended its model by co-founding a buying alliance, called CapOneSource, which aggregates the buying power of a broad range of capital equipment companies, reducing each company’s total outsourcing costs even further. Together, the members leverage common, standardized business processes based on the capabilities of “A-list” providers in each functional area. Lam’s results have benefited from its innovative business model; it was among 26 companies chosen by Forbes in December 2005 for the prestigious “Best Managed Companies” list[9].

Put in context, companies focusing on business model innovation have enjoyed significant operating margin growth, while those using products/services/markets and operational innovation have sustained their margins over time. If CEOs’ emphasis on business model

“"They are assembling a business model fashioned from groups of ‘specialized’ capabilities – combining internal expertise and scale through shared services centers with the capabilities of specialized partners to create truly differentiating business designs.”"
innovation continues (or intensifies), it could become the relentless battleground where operational and products/services/markets innovation compete today.

Notes

1. For readability, we refer to this collective group as “CEOs” throughout this report.
2. Erick Schonfeld, “GE sees the light by learning to manage innovation: Jeffrey Immelt is remaking America’s flagship industrial corporation into a technology and marketing powerhouse,” Business 2.0, July 1, 2004.

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More information on the IBM Global CEO Study 2006 is available at www.ibm.com/innovation/ceo

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Singapore Airlines: managing human resources

Service employees are a key input for delivering service excellence and productivity, both of which can be important sources of competitive advantage.

Yet, among the most demanding jobs in service organizations are these so-called front-line jobs where employees are expected to be fast and efficient at executing operational tasks, as well as friendly and helpful in dealing with their customers.

Therefore, it is a challenge for service firms to get their human resource (HR) management right, and most successful service organizations have a firm commitment to effective HR management, including recruitment, selection, training, motivation and retention of employees. It is probably harder for competitors to duplicate high-performance human assets than any other corporate resource.

From a service organization’s perspective, the service level and the way service is delivered by the front line can be an important source of differentiation as well as competitive advantage. In addition, the strength of the customer-front-line employee relationship is often an important driver of customer loyalty.

Singapore Airline’s generic strategy and supporting capabilities

Singapore Airlines (SIA) has achieved the holy grail of strategic success: sustainable competitive advantage. Even though the airline industry is extremely challenging, given its disastrous business cycle, overcapacity, difficulty of differentiation, high-risk profile and structural unattractiveness, SIA has consistently outperformed its competitors throughout its three-and-a-half decade history.

One key element of SIA’s competitive success is that it manages to navigate skilfully between poles that most companies think of as distinct: delivering service excellence in a cost-effective way, at cost levels so low that they are comparable to those of budget airlines. A key challenge of implementing business-level strategies, such as effective differentiation at SIA combined with superior levels of operational efficiency, is the effective alignment of functional strategies such as HR, marketing, or operations with the business level strategy.

Both superior quality and high levels of efficiency have been part of the goals and objectives of SIA since its founding, which have been to:

- deliver the highest quality of customer service that is safe, reliable and economical;
- generate earnings that provide sufficient resources for investment and satisfactory returns to shareholders;
- adopt HR management practices company-wide that attract, develop, motivate and retain employees who contribute to the company's objectives; and
- maximize productivity and utilization of all resources.
Managing people effectively to deliver sustained service excellence

Human assets are crucially important to service firms due to the inherent characteristics of the service industry, and HR management practices and the resulting quality of human resources are difficult for competitors to imitate. Service is a core part of the product and front-line staff tend to be the most visible element to consumers, hence significantly influencing service quality.

SIA’s Singapore Girl has become synonymous with the airline and the personification of quality service while most other airlines have not managed to “brand” and promote their cabin crew as successfully. Further, from a customer experience point of view, consumers often see front-line staff as the firm itself. Front-line staff at SIA are empowered to make appropriate decisions on customer service delivery and take corrective actions as needed for service recovery. Lastly, the front-line staff and service is a core part of the brand, and the service experience informs customer perceptions on whether the brand promise gets delivered. SIA places heavy emphasis on all aspects of selection, training and motivation especially for its front-line staff.

The following five interrelated elements inherent in SIA’s HR strategy, along with leadership and role modelling by top management, play a key role in SIA’s ability to deliver its business strategy of service excellence in a cost effective way:

1. Stringent selection and recruitment processes.
2. Extensive investment in training and re-training.
3. Successful service delivery teams.
4. Empowerment of frontline staff to control quality.
5. Motivating staff through rewards and recognition.

Stringent selection and recruitment processes

HR strategy begins with recruitment, where SIA adopts a highly rigorous and strict selection process. Cabin crew applicants are required to meet a multitude of criteria starting with an initial screening looking at age ranges, academic qualifications and physical attributes. After these baseline requirements, they undertake three rounds of interviews, uniform checks, a water confidence test, a psychometric test and even attend a tea party. From the 16,000 applications received annually, only some 500 to 600 new cabin crew are hired to cover turnover rates of 10 per cent, including both voluntary and directed attrition.

After the initial training, new crew are carefully monitored for the first six months of flying through monthly reports from the in-flight supervisor during this probationary period. Usually around 75 per cent are confirmed for an initial five-year contract, some 20 per cent have their probation extended, and the rest leave the company.

Despite the stringent procedures and strict rules about appearance and behaviour, many educated young people around the region apply to join SIA due to the perceived social status and glamour associated with SIA’s cabin crew. SIA’s reputation as a service leader in the airline industry and an extensive and holistic developer of talent enables it to have its pick of applicants. Many school leavers and graduates view SIA as a desirable company to work for and as an opportunity to move to more lucrative jobs in other companies after having worked with SIA for a few years.

“SIA places heavy emphasis on all aspects of selection, training and motivation especially for its front-line staff.”
Extensive investment in training and retraining

Even though training is often emphasized as a key element of success in service industries, SIA remains the airline with the highest emphasis on this aspect. Newly recruited cabin crew are required to undertake intensive four-month training courses – the longest and most comprehensive in the industry. Flight crew are also required to embark on 29 months of comprehensive “on-line” training before any promotion to first officer. SIA’s training aims to enable cabin crew to provide gracious service reflecting warmth and friendliness while maintaining an image of authority and confidence in the passengers’ minds.

Continuous training and retraining has been vital to SIA in sustaining service excellence by equipping staff with an open mindset, to accept change and development and to deliver the new services SIA introduces regularly.

Building high-performance service delivery teams

Effective teams are often a pre-requisite to service excellence. In view of this, SIA aims to create “esprit de corps” among its cabin crew. The 6,600 crew members are formed into teams of 13 individuals where team members are rostered to fly together as much as possible, allowing them to build camaraderie and better understand each others’ personalities and capabilities.

The team leader learns about individuals’ strengths and weaknesses and acts as a counsellor to whom they can turn to for help or advice. There are also “check trainers” who oversee 12 to 13 teams and often fly with them to inspect performance and generate feedback that aids the team’s development.

Empowerment of front-line staff to control quality

The culture of most successful service firms contains stories and myths of employees effectively recovering failed transactions, walking the extra mile to make a customer’s day, or helping clients avert disaster.

Employees need to feel empowered in order to expend discretionary effort. It is pertinent that employees are able to make decisions independently as front-line staff frequently have to handle customers on their own since it is not feasible or even desirable for managers to constantly monitor employees’ actions. Empowerment of the front line is especially important during service recovery processes.

Motivating staff through rewards and recognition

Rewards and recognition is one of the key levers that any organization can use encourage appropriate behaviour, recognize excellence, and emphasize both positive as well as undesirable practices.

SIA employs various forms of reward and recognition including interesting and varied job content, symbolic actions, performance-based share options, and a significant percentage of variable pay components linked to individual staff contributions and company’s financial performance. The numerous international accolades received by the airline over the years, including “best airline” and “best cabin crew service”, serve as further sources of motivation.

Implications

For three-and-a-half decades, SIA has managed to achieve what many others in the aviation industry can only dream of, cost-effective service excellence, and sustained superior performance. Understanding the underpinnings of SIA’s competitive success has important implications for other organizations.
A first key implication concerns strategic alignment, in particular aligning HR practices to a company’s competitive strategy. This is an important aspect of the ESCO framework of strategic alignment that suggests that for a company to be successful, the elements of environment, strategy, capabilities, and organization must be closely aligned. In this context, HR management is a key part of the organization dimension, which should deliver the capabilities that support a company’s strategy.

At SIA, the HR management practices enable the development of service excellence, customer orientation, adaptability and cost consciousness capabilities, that in turn support the dual generic strategy of differentiation and low cost, which in turn is the appropriate strategy for the environment of airlines. This poses important questions for the leadership of any organization, namely: “Given what is happening in our environment, what should our strategy be?” And second, “What specific capabilities must support our strategy, and how can we align the organization (including HR practices) to deliver these capabilities?”

A second set of implications concerns specific HR practices such as reward and evaluation processes, and training and development. One common issue in many organizations is a misalignment of the reward systems with expected behaviour. For example companies rewarding employees based on individual performance yet hoping for teamwork and information sharing. At SIA, the reward and evaluation system is fully aligned with expected behaviours.

Further, with regard to training and development of employees, many companies make the error of viewing training as a cost rather than as an investment; and of those that view it as an investment, many limit the training to technical aspects of the job rather than aiming to develop employees more holistically as at SIA. The SIA experience highlights how training and development should be employed in order to achieve a holistically developed workforce that can effectively support the company’s strategy. Key questions for leaders therefore are:

- What sort of behaviours and attitudes do our reward and evaluation systems encourage?
- Are these aligned with what is needed to support our strategy?
- Do we train and develop our people in a way that develops the right capabilities to support our strategy?
- Do we go beyond technical training to address attitudes and ways of thinking?

No organization can stand still. The recent socio-economic crises at the macro-level and the emergence of Asian budget carriers at the industry level mean that SIA not only needs to sustain its focus on achieving cost-effective service excellence, but also re-examine and re-invent some ingredients of its recipe for success.

This is a shortened version of “Managing human resources for service excellence and cost effectiveness at Singapore Airlines”, which originally appeared in Managing Service Quality, Volume 18 Number 1, 2008.

The authors are Jochen Wirtz, Loizos Heracleous and Nitin Pangarkar.

“For three-and-a-half decades, SIA has managed to achieve what many others in the aviation industry can only dream of, cost-effective service excellence, and sustained superior performance.”
In from the cold

How Apple has blossomed

Conventional wisdom has it that we are never too old to learn. Apple certainly appears to have paid homage to that particular sentiment. Just a decade after almost folding, the consumer-electronics provider is worth over $100 billion and now rubs shoulders with the USA's most prestigious organizations.

There is no doubting Apple's record as an innovator. Take, for instance, how its Macintosh computer introduced the combination of visual interface and desktop mouse. This alternative to using awkward text commands ensured that computer accessibility was no longer limited to those more technically minded.

Changing jobs

But coming up with ideas is one thing, exploiting them is another issue altogether. Apple has learned the hard way. Co-founder Steve Jobs steadfastly adhered to idealist values in everything ranging from design and technology to marketing. Loyalty to principles invariably comes at a price and here it was growing isolation for the company. The decision to plough a lone furrow meant poor compatibility between software and accessories with the Macintosh, forcing frustrated users into the welcoming arms of Bill Gates and Microsoft. The resulting slump in Mac sales was as inevitable as it was ironic given the wide recognition of the machine being the best computer around.

So, what is different now? Jobs. After boardroom upheaval led to a dozen years of exile from the organization, he returned in 1997 sporting a somewhat different perspective. While he remained committed to purist aims in relation to such as design and technology, the intervening years had turned Jobs into a realist where strategy was concerned. And instead of the go-it-alone mentality, he finally regarded Apple as part of a community where survival and prosperity depend on forming mutually beneficial relations with other members.

This triggered a string of developments that emphasized not only Jobs’ newfound realism but his shrewdness and eye for opportunity. He:

- buried the hatchet with old adversary Gates and invited Microsoft to invest in Apple;
- made Apple’s iTunes music catalogue available to Windows users;
- decided to bite the bullet and fit Macs with Intel processors instead of the IBM-manufactured chips used previously; and
- made Apple into a retailer.

The moves were greeted with amazement among Mac disciples. But Jobs was proved correct because he:

- secured his company’s future;
- turned Apple into the world’s third largest music retailer after Best Buy and Wal-Mart;
opened the door for users to run both Mac and Windows operating systems together. For Mac enthusiasts who needed to use Windows at work, this proved a godsend; and
defied expectations by enticing PC users to the Mac helping to increase Mac sales to three times the rate of computer industry levels.

All in the game

Tinkering around with the Mac’s core has paid dividends in another respect too. During the computer’s fledgling days, Apple focused entirely on corporate markets and refused to consider its baby as a game-playing device. What a piece of flawed judgment that turned out to be. Mac sales plummeted and software manufacturers deserted in droves. But the introduction of Intel chips has made it so much easier to develop games to run on the Mac and some 200,000 have returned to the fold. This includes giants like Electronic Arts and consumers can now look forward to Mac versions of some of the label’s most popular games.

From a design perspective, Apple’s creative juices have continued to flow. The latest expression of this innovativeness is the iPhone, following hot on the heels of products and hardware like iMac, iMovie, iTunes, iBook and iPod. This hit list indicates how Jobs was one step ahead of rivals in appreciating the rapid emergence of the digital age, placing Apple in the ideal position to seize the opportunities provided.

Phenomenal success with its iPod music player illustrates just how Apple has learned to take its chances. The company has shifted 100 million of the different incarnations of the portable device and now boasts 70 percent of the digital music market. Throw in the blossoming industry for iPod accessories and the fitting of iPod connectors in a growing number of cars and airline seats and the picture becomes rosier still.

But that has not prevented a mixed response to the decision to develop the iPhone. For and against arguments have respectively pointed to:

Evidence of iPod sales beginning to level off.

Apple’s need for something new up in order to sustain growth and since around 1 billion handsets were sold around the globe during the previous year, mobile phones clearly fitted the bill.

The threat posed to the iPod from the growing number of mobile phones that are equipped to play music.

The usual Apple strategy being to focus on products that define new categories. Consequently, the decision to enter a large established industry was met with surprise.

Fiercer competition – the likes of Nokia, Motorola and Samsung are far bigger fish than the MP3 brands Apple faced when launching the iPod.

Under one roof

The next best option to inventing a category is reinventing one. Apple has managed this with a product that combines phone and iPod with the added bonus of giving users full internet capabilities in the palm of their hand. The inclusion of superior software and a full operating system is evidence alone that the company has taken the mobile phone to a much higher level.
Despite this level of sophistication under its lid, the evolutionary design of the iPhone makes it straightforward to use. Consumers no longer need to navigate convoluted menus using awkward keypads. Buttons have been replaced by touch screen technology whereby people use fingers to select and perform different functions. As in previous cases, Apple has once again come up trumps by combining design quality and simplicity for maximum effect.

The power and the glory

Transforming the user experience does not stop there. In the mobile phone industry, network providers call most of the shots thereby frustrating consumers along the way. Such providers buy 90 percent of handsets sold in the USA. But Apple seems determined to redress the balance and many believe the organization has secured special dispensation from AT&T, its US provider. This may relate to important issues like control over iPhone features and revenue shares from service fees. With the Macintosh and iPod, Apple has aimed to minimize problems by managing every aspect of user experience. Having to depend on a service provider makes the same level of power unlikely with the iPhone but it sure will not deter the company from trying.

It is safe to assume that network operators will have reservations about the iPhone. For a start, Apple's position might open the floodgates for other handset makers to demand similar concessions. And then there is the likelihood of losing revenue from downloads. Apple provides the opportunity for users to link their iPhone with iTunes using a PC connection instead of downloading content via the mobile network. The challenge for Apple and any others that follow their lead is to maximize revenues from services provided while somehow minimizing the harm inflicted on network providers. In AT&T's case, any blow could be softened by enticing subscribers away from other network operators.

Encouraged by Apple's new found willingness to collaborate, would-be partners are itching to jump on the bandwagon. That's hardly surprising. After all, those associated with a company of Apple's stature are likely to be perceived as pretty cool themselves. But such organizations must be prepared to sacrifice some autonomy in return and this can mean relinquishing rights in different areas. Apple realizes that its customers have high expectations and that the risk of disappointment becomes considerably greater if it sacrifices too much control.

Joining Apple is not for the faint hearted. The organization sets massively high standards and pledges to make products that are the best. It expects the same of others and quality rather than quantity determines its choice of partners. Apple is notoriously perfectionist and demands instant answers when parts or projects fail to live up to expectations. A frustrating tendency to limit the amount of information given to partners and suppliers can hardly help in this or other respects.

Apple believes that controlling the gadget used to connect with all other platforms will allow it to control the digital marketplace. But others question the logic of becoming involved when the device is expensive and content cheap, thus ensuring that Apple benefits most. Suppliers of television shows, movies and other video content have already become wary after seeing this scenario emerge within the music industry. Among the few that have so far licensed movies to iTunes is Walt Disney, where Jobs became a major shareholder after selling Pixar Animation Studios to the corporation.

“\nThe decision to plough a lone furrow meant poor compatibility between software and accessories with the Macintosh, forcing frustrated users into the welcoming arms of Bill Gates and Microsoft. \n”

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The high price tag on the iPhone means that success cannot be taken for granted. There are:

- Cheaper options available and many punters will undoubtedly be attracted to handsets with capabilities that come pretty close to what the Apple product can offer.
- Limitations with the device, in particular its battery, network connection speed and memory size. But Apple may focus on improving such aspects to pave the way for later models as it did when segmenting its iPod market with the introduction of mini, shuffle and nano versions. However, the need for different operating systems may make similar price flexibility with the iPhone far less practical.

In spite of these challenges, Jobs hopes to shift 10 million iPhones or 1 percent of the handset market by the end of 2008. Although some regard this as a modest target, the potential benefits of capturing even that level of sales far outweighs the risks of venturing into unfamiliar territory.

Comment

The review is based upon: “Into the pack” by Kevin Allison, “Welcome to Apple world by Peter Burrows” and “The third act” in The Economist. Allison focuses on the launch of Apple’s iPhone. The author explores some of the reasons for justifying the product and points out both advantages and disadvantages. He also examines Apple’s decision to compete within a new and unfamiliar market where competition is tough and influence of network providers strong. Burrows documents the change in philosophy of Apple CEO Steve Jobs, and how this has resulted in the transformation of an isolated company into a leading provider of technologies. The article also examines relations between Apple and its partners, pointing out demands and issues that arise. Key decisions and strategies are also discussed, as well as the consequences and implications. The final piece illustrates the massive influence of Jobs on Apple and how he has helped the company to achieve significant technological developments during his two periods at the helm. Momentous developments that have led to a revival in fortunes for Apple’s Macintosh computer are discussed and the piece also focuses on the innovativeness of the new iPhone and its part in transforming Apple into a consumer-electronics organization. Each article makes a significant contribution and many important strategic implications are evident.

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Corporate social responsibility (CSR) is rapidly gaining importance for businesses all over the world. The concept is crucial for any organization as a prerequisite for brand value and business growth. This is apparent when the firm makes long-term investments to maintain its relations with society. However, CSR is also relevant when it comes to tackling sudden incidents, where society may seriously question the company’s social responsibility and thereby challenge the corporate reputation.

Consequently, CSR has relevance for businesses in two ways. First, a main challenge for corporations is to connect with society in such a way that the positive public image of the company is maintained and enforced. Most companies have a certain track record when it comes to CSR as perceived by stakeholders and society through past history and actions. Since the company is dependent on society, this track record should be protected and enhanced. Activities and actions directed at this objective can be labelled CSR enforcement.

Second, whereas building and enforcing the level of CSR is a continuous long-term activity, the CSR reputation of the company can be severely affected by sudden critical events (i.e. CSR critical incidents). A critical incident is defined as “any observable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the persons performing the act”. This implies that the incident must occur in a situation where the purpose or intent of the act seems fairly clear to the observer and where consequences are sufficiently definite to leave little doubt concerning its effect.

The case of Statoil

Statoil, which was established by the Norwegian government in 1972, has grown to become one of Europe’s leading oil and gas companies. The company is operator for 60 per cent of all Norwegian oil and gas production, and its international production is rising steeply. In December 2006, Statoil announced plans to merge with Hydro (the second largest oil company in Norway) primarily to strengthen the international operations.

Iran was one of Statoil’s international priority areas, which included business relationships with the National Iranian Oil Company regarding exploration, enhanced oil extraction from old fields, and technology development. In order to further strengthen their operations in Iran, Statoil entered a consultancy agreement in 2002 with the Iranian-based company Horton Investment with the purpose of accessing vital information regarding future oil and gas projects.

The agreement, with a total value of US$18 million over ten years, was later re-evaluated and found to be in conflict with Statoil’s own ethical rules and in violating the Norwegian anti-corruption law. Both internal auditors of Statoil and the internal security department warned the CEO about the irregularities. However, the CEO ignored the warnings. The chairman of the board was informed but failed to take action.

The incident accelerated when the leading business newspaper in Norway publicized the story.

“CSR critical incidents tend to be traumatic for those who are directly involved and are not particularly pleasant for the rest of society either. However, it is important to keep in mind that even negative incidents may have positive consequences...”
CSR critical incident

Shortly afterwards the vice-president for international operations was forced to leave the company. The Board then fired the CEO and finally the chairman of the board resigned.

Statoil enters the agreement with an Iranian-based consultant firm involving public officers to access information on new oil and gas opportunities in Iran. The CEO ignores the warnings from two internal audit units, and refuses to terminate the contract. The incident is leaked to the press by internal whistleblowers. The leading Norwegian business newspaper publishes the case and indicates corruption.

The fact that Statoil enters a dubious consultancy agreement is perhaps not a very significant episode per se. The real problems occur as follow-up incidents, when the CEO of Statoil in fact chooses to ignore the warnings from the internal auditors. It thus seems that the “owner” of the incident played a significant role in the further escalation. The Statoil HQ did this by first denying the existence of the dubious agreement, then explaining the rationale behind it before entering a “no-corruption-here” communication strategy. Thus, in cases like these it is likely that the “owner” of the incident may risk becoming the most influential driver by unwise handling of the incident and other drivers.

Stakeholders

The incident triggered several stakeholder groups, who became increasingly concerned with the developments of the case. The list of relevant stakeholders included employee groups, the media, police authorities, foreign public actors such as the US Security Exchange Commission (breach of ethical codes), the Department of Justice (violation of the US Foreign Corrupt Practices Act), Swiss authorities (money laundering), Iranian authorities (for bribery of public officials) and watch-dog NGO's such as Transparency International.

Media was a key stakeholder in the Statoil case, not only in exposing and covering the incident but also as an actor, which increased the significance of the episode. Without the initial cover story in the leading Norwegian business newspaper, no other media drivers would join in, nor would the Business Crime Unit of the Norwegian Police have taken action.

Activities

In order to meet the stakeholder expectations several activities were initiated including cancellation of the Horton agreement. The CEO fires the VP-International Operations. The board fires the CEO. The chairman of the board resigns. Following the incident, Statoil assigned external auditors to review all agreements in search for corruption/bribery, and a new four-point plan to reduce the risk of new dubious contracts was introduced.

The activities had implications for the resources by introducing new internal tools such as the four-point plan aimed at re-establishing ethical reputation. The activities most likely also reduced the long-term implications of the incident by demonstrating responsiveness to society and general responsibility.

Resources

Statoil's internal ethical rules and guidelines, which are aimed at preventing questionable behaviour, were strengthened after the Horton case. Similarly, the company's managers are now being trained in handling ethical aspects in connection with foreign oil and gas field development projects.

By adding resources (both systems and knowledge) the level of CSR has changed in two ways. First, the threshold for what is being considered as acceptable behaviour has been lowered, which means that it takes less before an issue is considered potentially problematic and handled accordingly. Second, the number of incidents has been reduced.
due to changes in patterns of corporate behaviour caused by, for example, ethical training programmes.

Investments of resources to improve CSR are reflected in Statoil's sustainability reports. The Horton incident was acknowledged by the company and shared with society through Statoil's sustainability report. Furthermore, the Horton Case Investigation Report was also made available on the company's web site. Information related to Statoil's CSR position was thus shared with society in a more general form than would be the case if targeted stakeholder communication was used as the only channel.

**Seven steps to consider**

1. When potentially critical incidents arise, always allow the internal tools to function as intended. In the Statoil case the internal tools discovered the irregularities and both the CEO and the chairman of the board were warned. Had only one of them responded, the critical incident would have been averted. However, the double failure to respond, allowed the episode to develop into a major critical incident.

2. Ensure that confidential information channels exist to ensure that crucial information reaches the top. In the Horton case, the problem was mainly related to the inaction of top-management rather than lack of information. However, in other cases confidential information channels will make available a way for concerned staff-members to inform top-management and thereby provide an alternative to leaking the information to the public media.

3. Be aware that even the smallest ethical firecracker has the potential to develop into a corporate reputational bomb. Statoil's initial strategy to downplay the seriousness of the case backfired and triggered the interest of the media instead. Consequently, a CSR incident of manageable proportions was magnified by the critical press and spun out of control.

4. When it is unavoidable that the incident will appear in the public domain, be selective when you decide on who should break the story. The company's media department may collaborate with certain members of the press to ensure early publication of the story in a less hostile manner.

5. CSR management requires a system for identifying the most significant stakeholders and their expectations. The company needs to be able to distinguish and critically assess the strategic importance and realism of the stakeholder expectations. In this context, one should keep in mind that not all stakeholders have legitimate goals.

6. Resources, such as sustainability reports, ethical guidelines and management control systems, should be developed based on input from significant stakeholders (including whistleblowers) and as learning benefits from past CSR incidents.

7. Investments to enforce CSR require attention to both the long-term building of company reputation and the ability to handle unexpected CSR incidents in a systematic and professional manner.

CSR critical incidents tend to be traumatic for those who are directly involved and are not particularly pleasant for the rest of society either. However, it is important to keep in mind
that even negative incidents may have positive consequences in the form of self-examination, system improvements and not least learning.

The important question is whether companies can learn from the mistakes of others, improve their own organizations and develop internal tools that can prevent and if needed disarm CSR incidents before they develop into reputational catastrophes.

This is a shortened version of “Managing corporate social responsibility: lessons from the oil industry”, which originally appeared in *Corporate Communications: An International Journal*, Volume 13 Number 2, 2008.

The authors are Terje I. Vaaland and Morten Heide.
A Sense of Urgency: an interview with John Kotter

Interview by Alistair Craven

Harvard Business School Professor John Kotter is widely regarded as the world’s foremost authority on leadership and change. His is the premier voice on how the best organizations actually “do” change. Kotter’s international bestseller Leading Change – which outlined an actionable, eight-step process for implementing successful transformations – has become the change bible for managers around the world. Our Iceberg Is Melting, the New York Times bestseller, puts the eight-step process within an allegory, making it accessible to the broad range of people needed to effect major organizational transformations.

Kotter’s articles in the Harvard Business Review over the past 20 years have sold more reprints than any of the hundreds of distinguished authors who have written for that publication during the same time period. His books are in the top one per cent of sales from amazon.com.

Professor Kotter talks to groups with one and only one goal: to motivate action that gets better results. He is a graduate of MIT and Harvard and joined the Harvard Business School faculty in 1972. In 1980, at the age of 33, he was given tenure and a full professorship. Kotter’s latest book is called A Sense of Urgency and in it he shows what a true sense of urgency really is, why it is becoming an exceptionally important asset, and how you can create and sustain it within your organization – starting today.

You are widely regarded as the world’s foremost authority on leadership and change. How do you reflect on your achievements so far?

John Kotter:

I think about the future much more than I do about the past. I’m certainly very proud of what I’ve done so far, but I’m much more interested in what I can be doing over, I would hope, the next 25 or 30 years.

Are you comfortable with your “guru” status?

John Kotter:

I have very mixed feelings about the term guru. I’m certainly pleased because people use it in a positive sense, and it’s always nice when people say things that seem to suggest a form of respect. I’m very uncomfortable in the sense that I do not sit on mountains in India and dream spiritual thoughts: that’s not what I do! I go out and study the world – or at least I try to – very, very seriously. I look into things deeply and see patterns that are important to how people live and run their organizations, and try to communicate that. That’s not sniffing lotus flowers!

“Increasingly, as the rate of change goes up, if you are inwardly focused you simply don’t see it well enough, clear enough or often enough and that poses great risks.”
Your new book is called *A Sense of Urgency*. Where does it sit in relation to your previous works?

John Kotter:

I started many years ago catching on to the rate of change increase. (It’s a long story why, of course, it always comes from talking with people, managers and executives.) I started looking into it and eventually found a pattern that we then started testing out. Namely, when people got it right – that is to say made changes, made them faster, more efficiently, smarter and with the minimum of pain – what did they do? This was important because we had estimated that 70 per cent of change efforts that you and I, from the outside, would say were obviously needed, either were not launched, came in over cost, or came in by any reasonable definition a failure. They were certainly not meeting anybody’s aspirations. In other words, they had a terrible success rate. Therefore, it seemed only logical to look at the very best cases and in those we discovered an eight-step pattern which we tested out again and again and found the same results among the most successful cases. The first step in that process has to do with a sense of urgency. In the last few years when I have asked people which of those steps they struggle with the most, or they have asked me that same question, the answer over and again has been the first step: establishing the sense of urgency. Hence my own motivation to dig into that and understand it better, and when I think I do understand it, to write about it.

What are the dangers of a false sense of urgency?

John Kotter:

A false sense of urgency is a terrible, terrible problem. A false sense of urgency is an anxiety driven, frenetic behaviour of running around in circles, your tongue dragging after a certain point, and becoming stressed out. You have meeting after meeting, taskforce after taskforce, but it’s activity not productivity. It is so insidious and dangerous for two reasons:

a) It wears people out
b) From afar, from the top of an organization looking down, very often it looks like a true sense of urgency. So, people are satisfied, they think they’ve got it and they are working on other problems, or they are working on other steps in the change process and they don’t know that the very foundation of what they are going to need to make some serious change simply is not there.

Are your ideas about urgency applicable across different countries/cultures and sizes of organization?

John Kotter:

In the past 10 years I’ve been travelling more around the world and the number of people who come to Harvard on the executive courses has gone up to the point where in our senior courses, 75 per cent are non-Americans. As I’ve had a chance first to talk at Harvard and then to see first-hand organizations, managers and staff in Europe, East Asia, down under and so on, it’s very clear to me that it’s basically the same problems and the same solutions no matter what. I think if you talk about size, sometimes at the extremes it’s a more difficult problem in larger organizations – especially if they’ve been around for some significant period of time – and most large organizations have. In terms of culture, nationality or geography I see no difference. In terms of size I think it’s tougher in giant firms, but that does not mean it’s easy in small ones. I know a number of places with 100 employees that are totally stuck in a complacent attitude and it’s getting them into deep, deep trouble.

“...most firms don’t understand enough about how to produce change in an efficient way that doesn’t leave blood all over the floor.”
You say that business change is shifting from episodic to continuous. Can you give us an example to illustrate this?

John Kotter:

Well, let’s start with what we mean by those terms. Episodic change means that every so often the senior executives see that they have to go through a change “thing.” They talk about the change management “problem”, and it could be, and often is, when they have to dump in a huge new IT system. Sometimes, more rarely, it’s when they understand they have to develop and implement a new business strategy, either for the entire company or around specific businesses within the company. Less so in talking about it (even though some people recognize it) it’s within acquisitions where it’s not only making acquisitions, it’s integrating them into an organization. But they think of these as events, episodes that they wish they could get through as fast as possible – 6 months would be nice! The events come and go, so things destabilize and then they re-stabilize.

A lot of change that is going on right now is of that sort, but the shift is very, very clear. We are going from that to more continuous change because people are being hit more and more by events, by technological changes, and by the implications of globalization that are not just once in a while, they come constantly. This in turn requires much more frequent change on the inside – so it’s not just one big project every five years, it’s four or five or six projects going on at the same time.

The first is difficult enough for most firms because they don’t understand enough about how to produce change in an efficient way that doesn’t leave blood all over the floor. The second is very hard because firms don’t have a built-in capability, if you will, for handling a faster moving world that is throwing challenges at them that require change all the time.

In A Sense of Urgency you say that the argument that change is always with us, or that change is cyclical “misses the point entirely.” What do you mean by this?

John Kotter:

When I start talking about change, one of the responses that I have found over the years is that people will come up with an example from, say, 1787 where life changed a good deal and come to the conclusion that “change is always with us”. They might also point out that things do stabilize during periods, and very often in the US they will talk about the relatively calm mid-1950s. From these two facts – or perceived facts – they draw the conclusion that change is always with us, and sure it goes up and down, but that’s all there is to it. If you look enough at the real data from the past 20 to 30 to 40 years, not just anecdotal ideas or instances of the two types that I just articulated, what you find is that the rate of change is creeping up and it’s not even going up in a linear fashion. On lots and lots of dimensions it’s going up exponentially. Maybe there’s some time in history where in a period of 40 years or more that general pattern is found, but at no point in history that I know, or any historians that I know have been able to demonstrate to me, has there been that sort of exponential increase to the level that we are at right now.

What are the risks of a company being too inwardly focused? What can be done to tackle this problem?

John Kotter:

Increasingly, as the rate of change goes up, if you are inwardly focused you simply don’t see it well enough, clear enough or often enough and that poses great risks. IBM became possibly the most successful organization of its kind – perhaps of any kind in the world – by 1965. The company then became, for a variety of not uncommon reasons,
extraordinarily inwardly focused. As a result, when Ken Olsen (Digital Equipment Corporation) came along with many computing and other major technological advances in a similar vein to Steve Jobs and Apple, IBM simply missed it. That isn’t to say that there weren’t people inside the company who knew what was going on, but as an organization they could not see it. It almost led to the company dying out. I don’t think anybody realizes how bad the situation was when Lou Gerstner took over in the early 1990s. It is not an extreme example, we just know about it because it’s a very visible example. If you go down to smaller organizations or mid-sized organizations that you and I may not even have heard of, we can find lots of those stories. So, the internal focus that misses what’s happening on the outside can be truly horrid.

Chapter four in A Sense of Urgency includes the provocative statement “most organizations fail.” What can you tell us about this?

John Kotter:

Again, if you go out and look at the data, when most industries are originally formed lots of firms “jump in.” In a new industry you could literally have 30, 300 or 3,000 little firms exploring some new possibility, then 10 or 20 years later instead of 300 you are down to 30. 10 years after that you might be down to 10, hence the vast majority simply fail – that’s the way things seem to be in new industries. In more traditional industries, especially, for example, certain types of food service, because there are low capital costs you can find a lot of people that jump in and think it would be really “cool” to open a restaurant. Often what they don’t know before they start with their little bit of money is that most restaurants – certainly more than 51 per cent – last a few years and die out because there is just too much competition already in the industry to support all of those organizations. In industries that are easy entry, a lot of people get in and by definition the demand isn’t there and a lot die. In early entries it’s the same. In one sense it’s easy to enter, but after a while some people get the economies of scale, some get the brand name, some get the better technology, and they just kill everybody else off. The generalization “most companies fail”, believe it or not, is supported by the facts.

At the end of the book you state that the ultimate solution to the problem of urgency dropping after successes is to “create the right culture.” Can you provide us with your definition of culture and its importance in business?

John Kotter:

Culture is a set of norms of “how we do things around here” that are self-reinforced; they are not rules that some bureaucrat reinforces. They are self-reinforced by peer pressure and shared underlying values, which are even more invisible yet we all care deeply about and that are consistent with the norms. That’s the essence of culture; norms and values. Culture is especially important because it doesn’t change very easily. You can’t just grab it and twist it in one direction or another, and it is very influential on the way people behave. So, if it is very influential and you can’t change it easily, it becomes a big, important factor in shaping what organizations do and how they do it. It’s my judgement that as the world becomes faster moving (and I think this is one of the key points I’m trying to make, although in a light touch, throughout the new A Sense of Urgency book), if you can build not just into a few people’s minds, not just into some actions that could disappear easily when a powerful or popular boss leaves, if you can build a sense of urgency in beyond even the systems, into the very culture, then you have one heck of a competitive
advantage. I don’t think many firms anywhere have that right now. I think the ones that are smart enough to develop it are going to have very, very good futures.

You have studied what people actually do to help their organizations perform well for the past 35 years. How would you chart the progress of management practice over this time?

John Kotter:

I think the progress of management practice during my career – and we’ll just take 30 years or 35 years – has been getting better. I think the number of people who are actually providing some competent leadership has gone up. So that’s the good news! Some of that, to the credit of people who have established business schools around the world, has been aided by undergraduate or graduate management education. The bad news is twofold. Number one: the demands that are being placed on organizations – and hence the excellence of management process, the sophistication of management process and the amount and quality of leadership that is needed – has in many arenas been going up faster than our own capacity to provide it. The second piece of bad news, which is related to why our own capacity to manage and lead better has not gone up faster is that we haven’t got business schools right yet. It’s not because there aren’t a lot of good people trying, but I think that business schools are still limited in what they do in two year courses or in some of the executive three day programmes. I think the need for helping people to really understand, be inspired and to develop new tools is greater than they can handle, even though the capacity in terms of the number of schools out there has skyrocketed during the course of my career.

Would you say that was a global problem, or localized to the US?

John Kotter:

I think this is a global problem. If anything, we are going to see this as a bigger challenge if India and China really take off, because the rate with which China is creating organizations that demand middle management and senior management is far outstripping its capacity to train or find and develop people to run them.

To end on a completely different note, if you had the opportunity to have lunch with any famous leader from the past or present, who would it be and why?

John Kotter:

Nelson Mandela. It is because, in my opinion, if we look the last 35 years, he has been the most astonishing leader – not just business or political – in the world. I think it would just be a privilege to have lunch with him, and even though he is 90 years old, I still believe that I could pick up a few things by watching him face-to-face that would be useful in my work.

“I know a number of places with 100 employees that are totally stuck in a complacent attitude and it’s getting them into deep, deep trouble.”
Hugh Hendry is the principal portfolio manager and leads both the investment thinking and the research team at London-based Eclectica Asset Management.

Hugh has 18 years’ industry experience with Baillie Gifford, CSAM and Odey Asset Management. At Odey he managed a range of funds from $1bn of long only European mandates, including the award winning Odey Continental European Fund, to the Eclectica Fund. Hugh graduated from Strathclyde University in 1990.

His billion-dollar hedge fund operates in the eye of the financial storm, the blame for which he says lies squarely at the door of the financial elites: the banks, pensions funds, regulators and governments who were all “asleep at the wheel.”

In his recent Channel 4 Dispatches programme “Don’t Bank on the Bailout”, Hugh travelled from the Square Mile in London to Wall Street in America, talking to some of the world’s leading economists and investors along the way. Hugh thinks the rescue of the banks could doom us all. “We’ll have to ratchet up our level of national debt to make this country feel as if it’s fighting another world war”. And our financial system may recover, but will the wider economy? Are we now simply heading for a recession, or a full-blown depression on the scale of the 1930s?

Hugh argues that in the UK we have to prepare for the worst – and let’s not bank on the bailout.

AC: Thanks for joining us today. Can you start by telling us about your day-to-day role?

Hugh Hendry:

My day-to-day role is “the boss”, and it is very different to many other occupations. I spend my time seeking distraction from my day-to-day role. I have a very unusual business whereby I’ve got a mirror reflecting on every action I take. I’m sitting in my office speaking to you and there’s a computer terminal which is changing by the second and telling me how much money I’m making or losing today. Most people have an appraisal by their senior people once a year, and if you are good then once a year you get good feedback. If you read the Nassim Nicholas Taleb book Fooled by Randomness it tells you the problem about financial markets is that we have too much information, we get too much feedback. Let’s say I’m a good investor. Because I’m getting a million data points, almost half of the time it might tell me that I’m bad, when I’m actually good!

I spend a lot of time out of the office. I make TV programmes, I go on radio programmes and I sit in the park reading The Economist. I certainly don’t read much conventional research. I don’t take the product of any investment bank, so instead I read some alternative material which is typically available on the Internet. I don’t really read the...
Financial Times. I hug trees, I hang out in New York, I go thousands of metres under the ground and examine geological freaks of nature. Two weeks ago I was a thousand metres underneath the Athabasca Basin witnessing one of the true remarkable geological feats which is pure grade uranium. Uranium is found around the world, but in terribly small quantities. If you think of a beach full of sand, maybe one or two grains would be uranium. I was in Canada at a spot where 20 per cent of the soil taken out of the ground was pure grade uranium. That’s how I spend my time.

AC: To quote you from Citywire, “I antagonize people, it’s part of my skill set.”

Hugh Hendry:

An investor is only as good or as strong as his client base. I need secure, long-term funding in order to pursue my whims of intellectual fantasy, if you will. Therefore, I enter into a kind of cabaret. My language is colourful, not fruity, and I want people to overcome the obstacles of me being different in my alternative lifestyle and alternative thinking. I want them to overcome those obstacles, because in doing so they prove to themselves and to me that they’ve seen through that and they’ve seen the integrity of the thought process that we have. They’ve seen that we are individuals and not subject to crowd thinking, and therefore they’re committed as long-term investors.

AC: Part of your company philosophy statement is as follows: “Pragmatism – not idealism. Conviction is overruled if the market does not show confirmation.” What do you mean by this?

Hugh Hendry:

When one is investing, one is dealing with the future. None of us – regardless of intellect – have actually been in the future, so we don’t know what we are talking about. Again, to refer back to the Taleb book, we fool ourselves; we believe that we’ve seen the future and we do so by constructing conventional analysis. The city spends literally billions of pounds investing in specialists to be experts, and so we do fundamental analysis. But it’s just a flight of fancy. Unless we devise time machines and travel into the future, it’s a folly. So, we respect the need for conventional thinking – we certainly do our own conventional, pragmatic analytical thinking – but we make money by being emotionally intelligent and seeking opportunities through paradox and irony, which is the undoing of conventional thinking.

AC: Many articles blame cheap money and greedy bankers for the financial “crash”, others blame deregulation. What are your thoughts?

Hugh Hendry:

There are certainly elements of that and there are other things that one could add, but I would rather take a more general view of it. I’d say that it’s almost pre-destination, it’s meant to be. You will never stop it happening, and it will happen again. It will happen 70 or 80 years in the future when we’re gone, when our memories have been erased. There’s a reason why human beings typically die off no later than their 80s. They die off so that the memory of their mistakes is erased and so future generations can repeat the folly of greed and fear.

AC: Why do you describe short selling as the “pursuit of truth”?

Hugh Hendry:

I see the role of a hedge fund manager as the unofficial opposition party in this country.
There are companies that employ hundreds of thousands of people. Can you imagine being the Chief Executive or Chairman and you are untouchable, and yet your decisions influence so many? If you get those decisions wrong, people suffer in terms of losing their jobs. Pensioners suffer because their shares don’t go up when they should have.

I’m on the prowl, and I devote resources and considerable amounts of money into trying to spot mistakes being made. I’m a guard dog of the capitalist system. My message to people who are out there working for large companies is that I’m on their side. If the guys at the top of their groups are listed in the stock market and if they dare to step out of line, I’m onto them and I promise you I make their lives a misery.

AC: Astonishingly you note that the balance sheet of the Royal Bank of Scotland is bigger than the entire British economy. What do you think should have been done to prevent scenarios like this?

Hugh Hendry:

What we witnessed in the last five years was the Martingale technique, a gambling technique. Imagine a game of coin-tossing, heads you win, tails you lose. If the house allows you to double up every time you lose – so every time you get tails you double your bet – you cannot lose. It’s a mathematical certainty that you cannot lose. If you go to a casino in Las Vegas and you try to pursue that strategy, you can’t because it is banned. It is banned because the house gives you a limit. For example, “Mr Hendry you have a credit limit of £100,000. You can blow that, but no more.” What we saw in the financial markets – unlike the casinos of Las Vegas – was that there was no house limit. So, you got 50 tails and you doubled up and it’s exponential. The result is that you find that one entity has got a series of bets called a balance sheet which is greater than the entire British economy.

AC: An incredible situation. Generally speaking, what do you think is likely to happen to banking regulation in the wake of the economic crisis?

Hugh Hendry:

Again, that’s quite easy because it’s happened before. As a general statement, the governments are coming in and with taxpayers’ money they are rescuing bankers. This happened once before. In early 1930s America, 5,000 banks – three quarters of all American banks – went bankrupt. The government insisted that they employ people of modest talent, that they engage modest risk, and that they achieve modest returns. For 40 years banks became utilities until the 1970s, when they began to employ people of less modest talent and began to take less modest risk and they achieved less modest returns.

AC: Following on from this, why do you think that the government bailout of the banks could “doom us all”?

Hugh Hendry:

The government has to bail out the banks. The problem we have is really more focused at the central bank. We had an opportunity a year ago to take some strain away from the economy by immediately reducing interest rates to offset the huge risk aversion that came through from the reality that the banks were insolvent. We missed that opportunity, and we brought rates modestly down from 5.25 per cent to 5 per cent and then we held them there from February of this year until September. That was catastrophic, because with the
amount of debt that prevails in the British economy today. 5 per cent really felt like 15 per cent. It was a straight jacket which has choked the spirit of enterprise out of the economy. There’s now a certainty that we will endure a profoundly serious and damaging economic recession.

AC: Looking to America for a second, what did you make of the decision not to rescue Lehman Brothers in the US?

Hugh Hendry:

Initially I had respect for it. It’s right that we should demand a pound of flesh. Lehman Brothers was a monstrosity of excessive risk taking. We wanted to run those guys out of town, but with the benefit of hindsight we’ve cut our nose off to spite our face. What we did was undermine any last vestiges of financial confidence in the present system. The cost now runs to trillions of dollars in terms of the amount of money wiped off stock markets by that one decision. They were trying to avoid moral hazard, but they doomed the system in the process.

AC: On the Dispatches programme you stated that investment and retail banking must be separated, and banks must never be allowed to lend more than they have. Can you expand on these two statements?

Hugh Hendry:

After the bankruptcy of the American banking system in 1932, the legislators introduced an act called Glass-Steagall. Glass-Steagall mandated that investment banking had to be carried out separately from retail banking. That’s a brilliant piece of legislation, and it survived for 67 years until it was repealed in 1999, nine years ago. Nine years ago, Citigroup bought Travelers, and there were political donations made to congress amounting to over $200m. They persuaded the politicians to give them the powers that had so destroyed them 70 years previously. As I said, there’s a pre-destination that we will repeat the mistakes of today in the future.

AC: Charles Goodhart, a founding member of the Bank of England's Monetary Policy Committee, said on the programme that interest rates will “go down from now, by how far and how fast nobody knows. They could go to zero.” Do you agree with him?

Hugh Hendry:

Yes. The role of a central banker can be compared to that of flying an aircraft. The most vital requirement is that the pilot avoids stall speed. If a plane stalls, the controls are of no use, they are unresponsive. We broke stall speed in the British economy earlier this year and Charles’s point is that for this reason we could put rates to zero and it wouldn’t change the fact that we are going to have a precarious economic situation. Monetary policy has now lost its role in being a relevant tool with which to avoid recession.

AC: In April you said that the recovery could take as much as a quarter of a century to complete. Do you still stand by this statement?

Hugh Hendry:

That is the recovery in equity prices. Again, I keep going back to the 1930s. The American stock market peaked in 1929 and it was 25 years before we saw a new high emerge. It peaked again in 1966, and it was 16 years before a new nominal price high. But remember, we had inflation in the 1970s and if you account for that, it was 25 years before we saw a new, real price high. The Japanese stock market peaked famously at the end of 1989 at 40,000. 18 years later it’s at 8,000. It’s got another 7 years to get back to its high.

“Monetary policy has now lost its role in being a relevant tool with which to avoid recession.”
I see the highs that we achieved 10 years ago and I say that it will be around 2025 before we see the emergence of new price highs. I keep telling my six-year-old that when he grows up he is going to be a bull and not a bear!

AC: The FSA banned new short selling of bank stocks on September 18th this year. How did you react to that?

Hugh Hendry:

I threw my hands up in despair! This action will undermine the solid foundations of the stock market, because in doing so, you are withdrawing liquidity from the market.

What do I mean by that? When you have a day when the stock market is plunging, someone is making money. Short sellers are making money, and they cash that money in. So, they close their position which means they buy shares. Ever since the emergence of size in hedge funds in the 1990s, we haven’t witnessed the catastrophe of a stock market crash. The last time we saw that was in October 1987, when in one day 20 per cent was wiped off all shares. That’s what happens when there’s no liquidity in a market. The presence of short selling has been a net plus. We took it away, and what did we see? We saw the biggest one day declines in stock market history. We saw crashes. I would link the two together.

AC: There seems to be a clear link indeed. Finally Hugh, how far do you think finance should be re-regulated?

Hugh Hendry:

Finance is the most over-regulated part of the economy. The tough part – and nobody’s got the answer to this – is how does the political and financial form of regulation remove the punchbowl from the party? When we all have prosperity – and I don’t care who you are, whether you work in a car factory or you manage a hedge fund – you don’t want the good times taking away. You don’t like going to a party where the host pulls out the plug, turns the music off, closes the bar and tells you all to go home. That is the role of a regulator. The problem is that they all court the publicity and goodwill that good times bring. I think the answer is put me in charge. I don’t care if people hate me!
Interview with Sir Tim Berners-Lee

Interview by Sarah Powell

Professor Sir Tim Berners-Lee is the inventor of the World Wide Web, and founder and director of the World Wide Web Consortium (W3C).

The consortium coordinates Web development worldwide together with teams at MIT, The European Research Consortium in Informatics and Mathematics (ERCIM), and Keio University in Japan. He is a senior researcher at the MIT Computer Science and Artificial Intelligence Laboratory where he holds the 3Com Founders Chair. He also serves as Professor of Computer Science at the School of Electronics and Computer Science (ECS) of the University of Southampton.

Since 1995 Tim Berners-Lee has received a raft of international awards, nominations, honorary degrees and fellowships including a MacArthur Fellowship in 1998 and, in 2002, the Japan Prize from the Science and Technology Foundation in Japan. In 1997 he was awarded the Order of the British Empire (OBE), and in 2004 he received a knighthood (KBE) for services to the global development of the Internet via his invention of the Web. In June 2004 in Helsinki Sir Tim Berners-Lee was awarded the first ever Millennium Technology Prize 'for outstanding technological achievements that directly promote people’s quality of life, are based on humane values, and encourage sustainable economic development'.

Tim Berners-Lee was a fellow at CERN, the European Particle Physics Laboratory in Geneva, Switzerland, in the late 1980s and early 1990s, which is when he developed the World Wide Web. He made available the first programs for browsing the Web within CERN in December 1990, and then publicly, free for anyone to use, in the summer of 1991. The history, development and vision behind the Web are described in his book Weaving the Web (Harper, San Francisco, 1999).

How would you describe the Semantic Web and how does it build on the World Wide Web to enable computers not only to make links but also to extract meaning from disparate information to create a web of data?

Sir Tim Berners-Lee:

Computers can't 'understand' data in the way that people do. The Semantic Web is not about 'understanding' data, it is about putting data onto the Web to make it available so that we can access and use it. There is a tremendous lot of data out there which is why some people have called it the Web of data or the 'deep Web', meaning that it is not really accessible because we can only probe it through websites which have databases behind them. But documents, bank statements, rolls of films and so on are all data files too. So the Semantic Web is about getting data onto the Web, and data in the ‘deep Web’ can then be exposed with a language. We have RDF, or Resource Description Framework, as the data language and we have developed a query language called Sparql (pronounced ‘sparkle’).
In terms of sharing information and mimicking the human association of ideas through linking information, the World Wide Web builds on the ideas and work of people such as Vannevar Bush and Doug Engelbart. The hypertext Web brings us a common information space – global information at the click of a mouse. The Semantic Web goes further, providing a web of data but also allowing for machine analysis of RDF data content.

**How does RDF work? Does it rely on pattern recognition?**

**Sir Tim Berners-Lee:**

RDF language is about interoperative data. Unlike pattern recognition, which is about trying to discover pattern where it's not explicit, the Semantic Web is about explicit relations.

We can look at pattern recognition and about trying to understand meaning from human discourse and so on, which some fields of artificial intelligence do, but that's not what the Semantic Web is about. The Semantic Web is about the interoperability of reasonably well-defined data where you have well-defined relationships.

The Web ontology language, or OWL, allows you to find terms like 'parent' and 'earth mother' – they're relationships between people – or 'author' – the relationship between a person and a document. Or it might be something such as the relationship between a protein and a gene, and so on. These are the sort of things we're usually searching for and they are captured in part but they're not all connected together. For example, I can't formulate a query to find all the papers written by friends of people who work on a given project. This should be a simple data query. The problem is that all that data is in databases which are disjointed, and often in different data formats.

**The World Wide Web has been immensely empowering in terms of promoting access to information, raising awareness, boosting understanding and providing a forum for free expression. Many facets of our lives have been revolutionized as a result. Is this the 'magic' you predicted in Weaving the Web and what sort of applications do you envisage for the Semantic Web?**

**Sir Tim Berners-Lee:**

Well, some of the things that have happened on the Web do seem magical in that, when people get together and collaborate, it is magic – and really unexpected things can happen. Every now and then I get an email from somebody who has found that they've managed to do something with the Web that they really didn't expect. That is very nice to hear. But there are also many times when you're using the Web and it's crazy – it's clear that the community isn't helping you. For example, you might be looking at a Web page about a meeting and all the information you need about time, place, people etc. is there, but you will have to copy all the information from the Web page into your address book by hand if you want it to be instantly accessible. This is such a waste of time. Our hope is that the Semantic Web will allow for integration of data-oriented applications as well as document-oriented applications.

The power of the Semantic Web is its ability to link things together, to connect things. Anyone can put a data application on the Web and there are some wonderful websites out there, but the need is for them to act together. Just cast your mind forward and imagine you have a company. Imagine that, when you are making purchases, all your suppliers have put data on the Web about the parts they sell and their pricing and delivery details. With all this information and details on part compatibility available on the Semantic Web, I can write a programme to find the best fit for a new part if I break one and need a replacement.

"The threat at the moment in the USA comes from telecommunications companies that have noted the vast profits made by Google and are threatening to charge more specifically for each customer that they connect."
What's also exciting about the Semantic Web is its potential for unexpected, serendipitous re-use of data, i.e. when somebody uses that information for a completely different purpose. Again, imagine you have all this information about different companies selling different parts. When people also put their pricing information on the Web in an analysable form, a researcher will be able to pull up the prices of various parts to analyse the variations across the USA. Such research could be really interesting – you could, for example, be investigating the costs of transport. Or perhaps your company is facing a crisis, a fire at a plant, and you fear it will be unable to produce a particular product. You might want to identify which customers will be affected so as to organize for members of staff who live closest to their plants to visit them individually. It would involve taking data from the HR database, from the customer database, from the orders system and the production system. Normally it would take ages to try to put together a system that integrates all that data. In the future it could all be on the Semantic Web, and accessible using Sparql. The whole point of the Semantic Web is to connect different applications so that people can just ask a question and then access and navigate around all that data.

In your book you write that to foster trust and confidence in Web content and promote quality you would like to see the use of endorsement techniques similar to the PICS protocol to express other subjective notions such as academic quality. Is this occurring to any extent?

Sir Tim Berners-Lee:

I think it is coming. One thing that's already happened is that, generally, a hypertext link is considered to be an endorsement to a certain extent. Because Google, for example, considers a link as an endorsement, another interesting development is that now you can choose when you make a hypertext link whether you want it to be used or ignored as an endorsement. If, for example, you want to refer to something with which you disagree, you can put an attribute onto a link to ask search engines not to take it as an endorsement.

There are numerous endorsement-based websites out there. When you think about it, the whole blogging community works as a form of endorsement. Bloggers point at other people's blogs, and this endorses them. Then you can take the track-back system of lists of blogs that have pointed to your blog as a measure of kudos. All this and much more is already happening. The Internet Content Rating Association, ICRA, has also launched a drive to create some sort of RDF-based labelling system on the Web – this would be in the PICS style but different from PICS which is now rather out of date.

What sort of things would be labelled?

Sir Tim Berners-Lee:

Well, the whole point about endorsement on the Web is that all kinds of things can be labelled. For example, there's a move to endorse websites as being suitable for mobile phones. Here at W3C we have launched the Mobile Web Initiative (MWI) to improve the experience of browsing the Web with a mobile device. We're calling for endorsements about sites that are accessible, use the standards and so on. There is also interest in labelling sites to indicate whether they're suitable for children or not. There has been great enthusiasm for labelling but we're not talking about government labelling of sites. Sometimes it's labelling by the site itself, or else it's labelling by a third party that makes the decisions. There are many different labelling systems. It's not a rating system such as that for films.

W3C's role is to develop open Web standards and guidelines to ensure the long-term technical evolution and ongoing network neutrality of the Web. Speaking at WWW2006, you warned of a threat to charge for different levels of online access. Where is this threat coming from, what are the implications, and how is it being combated?
Sir Tim Berners-Lee:

While we may pay for different service levels, e.g. we pay more for a higher bandwidth, the important thing about the Net is that if we both pay for a certain level of service, then we can communicate at that level no matter who we are. We pay to be able to connect to a certain bandwidth and that's all we have to do. It's up to our ISPs to ensure that the interconnection is done. This is how it has always been done. The threat at the moment in the USA comes from telecommunications companies that have noted the vast profits made by Google and are threatening to charge more specifically for each customer that they connect. As an example of the potential impact, imagine that my MIT ISP decided to block Emerald and then went to you and said: 'Look, you're delivering interesting content, but to deliver specifically to MIT you'll need to join our partnership programme and we'll help you deliver your content even better to MIT, e.g. delivering video or audio as well'.

The telecommunications companies are trying to argue for the right to do that – to block and selectively allow high value-added connectivity so that effectively they would control the video sites their customers could access. They want to stay in the cable TV market because they have the ability to negotiate particular sources of TV streams. But TV over the Internet should be a different arrangement. Emerald should be able to start up on a TV station, buying up bandwidth for a few people to be watching it at any one moment. For your customers, that would be one of a huge choice of different TV channels that they could access.

As far as I can see at the moment this threat has only emerged in the USA. There have been battles in Congress and channel TV companies have spent massive amounts of money lobbying and putting ads on the Internet to try to pretend that they're being more open than the people who are demanding the neutrality of the Net. The TV companies are putting forward all kinds of ridiculous arguments. In response there has been a public outcry, in fact a huge outcry from people at both ends of the spectrum, ranging from MoveOn.com, a more or less democratic or left-wing political body, to gun-owners and some right-wing religious organizations. Many of these people realize they risk seeing their websites blocked because the media companies don't really approve of them. In fact anyone who worries that their views might not be those of the mainstream media is concerned by this.

What challenges do you face in ensuring browser security, given the dangers of phishing, viruses and spam?

Sir Tim Berners-Lee:

This is a complicated question to answer as there are so many of these. I see the most difficult challenges as being in the media interface with the human being. Phishing relies on the human being hoodwinked, so it is a question of making a browser, an email client, which more transparently indicates what is going on, i.e. so that it is clear who is sending messages or who is running a website.

W3C had a workshop on this recently and we have some work coming up on it. Meanwhile there is plenty of cryptography out there. When it comes to traditional security, this involves making cryptographic, coding schemes which are more difficult to break. But that's not the issue here. The issue is one of trust management. It is how to design a system so that the user can recognize when a website that claims and seems to be their bank is not...

Some quite simple things can be done to foster trust. In addition to having a little padlock to indicate a secure site, a browser could also display the name of the holder of the certificate. There are also more complex things to help the user to manage the trust on their system, telling the computer what information to trust. We've been talking about these issues for a year or so and there are a number of challenges to be addressed relating to building the interface to all systems. When you're doing something in the physical world and the hairs on the back of your neck rise, this indicates that some part of your brain is
making you suspicious. But it's very difficult to write down what it is. We have to find a way of making it much more explicit so that the computer can help with it.

You have described your role at W3C as 'facilitator of consensus'. How does the W3C reconcile the tensions between the open source focus of what you have described as 'philosophical engineering' and the commercial interests of many of your members, and to what extent is software patenting a problem in development of the Web?

Sir Tim Berners-Lee:

There are a number of tensions given the role of facilitating consensus, visualizing it, arriving at a common agreement despite people coming from different initial positions. Just talking about a problem when different participants have stakes in different outcomes gives rise to tensions. But the consortium works in an area where there are innumerable win-win situations. There is, for example, a win-win situation in that a successful standard will typically create a large, new market. This means that everybody involved makes an effort, understanding that.

In the early days of W3C when we were working on the P3P technology for privacy, a participant claimed to have patented part of the developing standard. This was a real problem and discussions went to a very high level. It also forced W3C to take on the issue of patents and Web standards, and we put together a Working Group with diverse representation to develop a policy – one that received public review throughout its development. As a result of this experience, W3C developed its innovative Royalty-Free Patent Policy to help ensure that core Web standards can be implemented at no cost. Although it took several years to develop, it was adopted in 2004 and is now well established and well respected. Large companies that you might have thought of in the past as being champions of IP did the maths and realized that it's very important to have royalty-free standards. They could see what had happened to things that were not royalty-free: how these would take off as a very limited market; and how things which were more open were just much livelier, and a foundation for huge, new unexpected things to be built on top of them.

That message has got across now so that the large companies very much understand this. In fact they sometimes bring work to us at W3C, saying that they don't want to do it anywhere that doesn't have this policy, because they don't want to work on something and then find that it's not sufficiently open. So while there's always a possibility of some person trying to maintain that they invented the whole thing ten years ago, in practice the players who are in a position to take such a stand are generally involved in making the standards and sharing the IP. So the patent policy has been a great success, even though every now and again we still meet problems that need addressing. A few companies had to do some soul-searching before adopting it and there are some companies that are still unhappy, but the vast majority of the companies that matter are very pleased with it.

You have emphasized that the Web is a social creation, its value deriving from the opportunities it presents to tap into and share knowledge and communicate freely across a common information space. How are the social and business benefits of collaborative open source initiatives such as the Web reconciled?

Sir Tim Berners-Lee:

The open source world and the commercial world are both very important. They always have been and they have to co-exist; we need both. When the Web started, of course, it was all open source. There were no products and the response we got from a lot of
commercial users was that they didn't really want to rely on something for which they
couldn't pay for support. They'd use a browser when they could buy one. So the starting of
Netscape Communications was an important step then.

When we look now to the Semantic Web there's a broad base of open source. There's a
set of start-ups, producing Semantic Web technology, and there are large companies that
are used to handling data in large quantities and are now producing Semantic Web-based
products and connecting their products to the Semantic Web. Both are important and
both will continue to be important.

The open source side is extremely important for the creative, for the academic, for
computer science and websites. As a discipline you need open source platforms on which
people can test out and develop new ideas.

How close is your dream of 'one Web for everyone, everywhere, on everything' to
realization?

Sir Tim Berners-Lee:

The dream is not yet realized because we don't have a collaborative space. We're only
starting to get our data on the Web and we have a very small proportion of people in the
world connecting to the Internet. There are many many ways in which we have a lot of
work to do.

“Computers can't 'understand' data in the way
that people do. The Semantic Web is not about
'understanding' data; it is about putting data
onto the Web to make it available so that we can
access and use it.”
Renault helps drive down prices

“No frills” economy challenge to car makers

Competitive pricing key to emerging markets

Much as we like the gadgets and gizmos they put on new cars to entice us to buy, it sometimes makes you wonder why they do not deprive us of some added extra and reduce the price of the car instead. While most of us do not want Ford, Toyota, Renault or Mercedes to make economies when it comes to airbags, crumple zones or the latest technology in braking, wouldn’t many of us be happy to live without a plastic cup holder, mirrors which fold back when you stop, or even windshield wipers that turn themselves on when it is raining?

If you are spending a few hundred thousand dollars on a Rolls Royce Phantom you might consider a built-in, hand-polished veneer wine cooler as essential as an engine and steering wheel – especially if you are not the one who has to drive it. But, as for the rest of us, is it any big effort to turn on the lights when it is getting dark, the wipers when it starts to rain, or even fold in the mirrors if you are parked in a tight spot? Wouldn’t we prefer the miniscule effort that those actions take in exchange for a hefty reduction in the car’s price?

Easy explanation for going back to basics

While cars have, in the main, been getting better and better with more and more frills, a revolution has been quietly taking place which is putting, not the “more frills” but the “no frills” manufacturers into the driving seat of the global industry. One of the main reasons for such a seismic “going back to basics” change is easily explained.

Manufacturers are facing highly-competitive, yet saturated, traditional markets, while emerging economies such as China, India, Brazil and Russia have millions of people currently riding about on motorcycles or scooters who aspire to getting their first car. Hence, the race is on to provide this burgeoning market with something they can afford. For volume manufacturers not tapping into this market already, or planning their strategies to do so, there can be little sympathy. After all, it is not rocket science, neither is it new.

The car makers already in there are only doing what the “no frills” airlines such as JetBlue, Rynair, easyJet and SouthWest Airlines did to bring affordable air travel to a mass market. And what supermarket chains such as Aldi and Lidl do by cutting down on fancy in-store presentation and passing on savings to the customer.

It is not even as if this is something new to the automotive industry itself. But maybe in their efforts to bring us better, more luxurious and equipment-packed vehicles, manufacturers have forgotten the successful roots of Ford with its “I will build a motor car for the great multitude” declaration and its consequent innovative economies, and of Volkswagen whose iconic Beetle came from Adolf Hitler’s command that the car had not to be an exclusive privilege of the rich.
Decades later and it is not Henry Ford and Adolf Hitler laying down the ground rules for mass motoring, but people like Ravi Kant, managing director of India’s Tata Motors, and Renault-Nissan Chief Executive Carlos Ghosn.

Welcome news for those priced out of the market

Both companies are at the forefront of this “no frills” revolution and determined to make their reputations buy slashing the price of new cars. Not just paring off a few dollars, Euros or rupees here and there, but cutting costs so dramatically that new cars might have of price tags less than $3,000, which is a mind-blowing concept for those of us who can soon rack up that amount in optional extras.

But it is welcome news, not just for people in those emerging economies, but also for people in Europe and the USA who also find themselves priced out of the automobile market when all they want is A-to-B transport and could not care less if its rear end bleeps when it senses an obstruction or if they have the tiresome job of flicking a switch if it goes dark or starts to rain.

If they are to compete at all against low-cost manufacturers, carmakers will need to do more than just introduce leaner versions of existing models to the market, reckons Ralf Kalmbach of Roland Berger Strategy Consultants. Roland Berger predict the low-cost segment (cars selling for under 10,000 Euros) will grow more than any other, with sales increasing to 18 million new vehicles by 2012 – a growth rate of 22 percent.

Difficult time ahead for established manufacturers?

Ralf Kalmbach says: “The market is expected to double in China and Eastern Europe over the next six years. In India, we expect the market to grow by approximately 50 percent. This means that market dynamics will be determined by countries where the game rules are quite different than they are in the traditional markets. And although China, India and Eastern Europe are not unknown territory for established carmakers, they will not necessarily be able to secure a dominant position in these markets. In fact, they could have a particularly difficult time in the highly dynamic low-cost car segment, where local competitors such as India’s Tata Group or China’s Chery are already selling cars for less than 4,000 Euros.”

French carmaker Renault, in partnership with Nissan, launched its “no frills” Logan in India this year with a $10,000 dollar (£5,000/EUR7,400) price-tag and is already said to be working on an even cheaper version. Although built for the emerging markets, it has already become sought after in the mature European market, and production – originally from Renault’s Dacia subsidiary in Romania – is also being increased in India, North Africa, Latin America and Russia.

And if you think that is cheap, you have seen nothing yet. Next year Tata Motors plans to surprise us all with its launch of a car selling for about $2,500 (£1,250/EUR1,850) – the cheapest in the world by far. It is said to be a four-door, subcompact with an engine size of around 600c and something MD Ravi Kant says will be “good looking.” Mr Kant, conjuring up quite a picture, says the car will be aimed at “people who are driving two wheelers and carrying their entire families on them.”

Renault-Nissan and Tata will not have the markets to themselves, of course. Toyota, for instance, is planning a new “ultra low-cost” car which CEO Katsuaki Watanabe says will embody radical changes in design, sourcing and production. In the USA, General Motors is developing a low-cost model for emerging markets and watch out for cheap Fords based on

“Is it any big effort to turn on the lights when it is getting dark, the wipers when it starts to rain, or even fold in the mirrors if you are parked in a tight spot?”
the Ka and Fiesta. Meanwhile VW is planning a low-priced vehicle based on its
Brazilian-made Fox city car.

A mixture of design and engineering talent, trimming component costs and, in the case of at
least one manufacturer, discovering how to avoid building a prototype, all help to keep the
prices down.

Looking at “no frills” businesses generally, Nirmalya Kumar says there will always be room
for both low-cost players and value-added businesses. He says: “How much room each will
have depends not only on the industry and customers’ preferences, but also on the
strategies traditional businesses deploy. If incumbents don’t take on low-cost rivals quickly
and effectively, they can blame no one for their failure but themselves.”

Cutting the cost of motoring and bringing it to huge new markets may be good for
businesses. What it is going to do for the environment is another story altogether. John Reed
and Amy Yee note: “Some analysts warn of the toll that millions of new drivers will have on the
environment and quality of life. This is already evident in the snarled traffic and smog of cities
such as Sao Paul, New Delhi and Shanghai. India alone has been building 2,000-2,500 km of
new roads a year.”

With the demand from the market and the eagerness of manufacturers to find new
customers, it is going to be brave politicians indeed who try to stop the bandwagon.

Comment

This review is based on “The race to build really cheap cars” by Gail Edmondson, Ian
Rowley, Nandini Lakshman, David Welsh and Dexter Roberts, “Strategies to fight low-cost
rivals” by Nirmalya Kumar; and “Thrills without frills: carmakers race to cut the cost of
motoring” by John Reed and Amy Yee. Both the Gail Edmondson et al. and the John Reed
and Amy Yee articles focus on how some of the world’s major automakers are competing to
produce the cheapest car. They each appraise the recognition, with particular focus on
Renault-Nissan and India’s Tata Motors, of manufacturers of the huge, untapped markets of
emerging economies such as Brazil, China, India and Russia. They describe how very
cheap cars are not only key to these markets, but are also attracting attention from potential
customers in the more mature markets. Nirmalya Kumar dispels some common myths about
low-cost businesses, arguing that they represent an enduring threat. A framework is
provided for responding to low-cost rivals, asking first if the new entrant is likely to take away
any present or future customers.

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Co-creating value through customers’ experiences: the Nike case

Venkat Ramaswamy

Customers need no longer be mere passive recipients of value propositions offered by firms. They are now informed, connected, networked, and empowered on a scale as never before, thanks to search engines and engagement platforms like Google, the growth of Internet-based interest groups, and widespread high-bandwidth communication and social interaction technologies. Customers have learned how to use these new tools to make their opinions and ideas heard, and involve themselves in the value creation process. Seeing opportunity in this new environment, leading firms are responding by engaging their customers in the co-creation of value. In the process they are inventing new competencies and business practices.

The innovation and marketing processes of one such company, Nike, provide a glimpse of the next “best practices” of value co-creation with customers. The source of new competitive advantage and the seeds for a firm’s future profitable growth lie in the strategic capital it can build by continuously interacting with its customers through engagement platforms, especially those centered on customer experiences. This new strategic capital is the accumulated knowledge and skills continuously garnered by the firm through interactions with customers. These interactions strengthen a firm’s capacity to use global network resources and thematic communities to continuously identify and act upon new innovation and value creation opportunities. In sum, leading firms are learning how to sustain competitive advantage by co-creating experiences of value with customers.

As shown in the center of Exhibit 1, co-creative interactions are an emerging strategy for value creation. By engaging with informed, connected, and networked customers around the globe, the shoe company Nike has found a new source of value. Whether as “single individuals,” or as members of global thematic communities, customers or other stakeholders now can and want to be involved with Nike in shaping outcomes of value. They do this by sharing their interactions and experiences – these range from their ideas about how to improve or customize products to their feelings when they use products.

The Nike case

During the 2006 World Cup, in partnership with Google, Nike set up a social networking site, Joga.com, that invited individuals to film their soccer skills, upload the videos that showcased their talent, and then have the network community comment on, rate and share the user-generated content. The community was the judge of a winner every month. Joga.com invited individuals to create their own profiles and socially network with others. Joga.com was in effect a thematic community that enabled individuals to share personal and collective soccer experiences. With over one million fans participating in this innovative brand building effort, Nike had a unique opportunity to learn directly from its customers.

Joga.com, however, was not an isolated Internet marketing initiative. Nike sponsored street soccer competitions, created a web site that connected professional players with their fans, and also sponsored conventional Internet marketing programs. A Nike video of Ronaldinho,
the world-famous Brazilian striker, was downloaded over 32 million times. In addition, on the ‘Nike ID’ web site, the firm invited twenty purveyors of sneaker culture to compete in designing a new shoe for Nike. The firm structured the competition as if it were a reality show and then asked the Nike Internet community to vote on the best design. Besides these designs and Nike’s original new designs for the season, fans could go on the Nike ID site to personalize their own shoes from various styles and colors, including putting the flags of the countries they wanted to support on their shoes. Nike provided software tools for local soccer teams and professional leagues to co-design and customize the soccer shoe.

Through these many initiatives, Nike is connecting with millions of soccer fans around the globe. The strategic opportunity for Nike is to build and promote the use of Internet engagement platforms through which the firm can establish customer relationships on a scale and scope as never before. Effectively managing these new initiatives initially posed a new challenge for Nike, a traditionally product-centric organization. The company soon recognized that competition for advantage in the sneaker market had shifted to creating value through experiences.

Charlie Denson, president of the Nike brand, says the market reaction to these initiatives helped persuade the company to translate Joga.com into a sustained effort to develop customer relationships, something the company had failed to do in the past. “When the World Cup was over, the Nike brand teams who had built that whole platform moved on to the next thing.” And Denson thought, “Whoa, whoa, whoa, you just dropped the keys to the kingdom in the moat.”[1] To Nike’s credit, it is now proactively working on building a strategic architecture to “connect the dots” between Joga.com, its retail network and Nike ID, all centered on the soccer experience. As Stefan Olander, the company’s director of digital content notes, “In the past, the product was the end point of the consumer experience. Now it is the starting point.”

In the Nike soccer example, Nike can generate and refine new ideas rapidly, accumulate learning about what customers want and don’t want and how they want to engage. Plus, Nike can tap into the collective creativity of its customer base. As it engages with its community of customers Nike can build its brand in unique ways. For example, Nike’s customers gain experiences of value to them through their participation and influence in the design process, by being a part of creating the product/service offering, by socially networking with people who share like-minded passion for the sport, and by reducing their risk of dissatisfaction. The positive word of mouth from the community can reduce new product-service failure and misalignment with the market and accelerate and enhance market acceptance. Nike has started to move rapidly in this direction across its other businesses as well.
The DART guidelines for co-creating value with customers

From the firm's perspective, co-creating value with customers involves rapid and continuous learning by the firm from interactions with them about how they relate to the options and features that the firm has on offer and how those offerings might be of more value to customers. Taking this idea one step further, the Experience Co-Creation (ECC) process involves enabling co-creative interactions so that individuals can have meaningful and compelling engagement experiences. Either process requires some management guidelines based on enlightened self-interest.

To illustrate how an EEC initiative works in practice, consider the running shoe business of Nike. In May 2006, Nike launched the Nike+ (NikePlus) platform, a collaboration between Nike and Apple, consisting of an Apple iPod music player, a wireless device to connect the music player to running shoes, a pair of Nike shoes with a special pocket to accept the wireless device, and membership in the iTunes and Nike+ online communities (itunes.com and nikeplus.com). The Nike+ co-creation platform capitalizes on the connection between running and music. The combination of innovative, mobile technology, online communities and athletic gear expands the field for co-creation.

To manage the co-creation of value process in this market Nike uses guidelines based on the DART Model – dialogue, access, risk-return and transparency – to establish best practices (see Exhibit 2). At Nike, these guidelines set the stage for high quality co-creative interactions between individuals (runners); groups (teams of runners, running clubs); and organizations (Nike and Apple).[2]

Dialogue. The DART co-creation model is designed to foster meaningful dialogue, for example, between the customer and the company. The Nike+ system encourages meaningful dialogues:

- Between the runner and Nike.
- Between the runner/listener and Apple.
- Among runners.
- Between runners and running experts.

Runners can engage in nearly real-time conversations online. Groups of runners can challenge one another and friends can cheer on each other as they make progress toward their goals and resolutions.

Exhibit 2 | The DART model

<table>
<thead>
<tr>
<th>DIALOGUE</th>
<th>ACCESS</th>
</tr>
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<tbody>
<tr>
<td>New rich dialogues between the runner and Nike, between the runner/listener and Apple, among runners, and between runners and running experts.</td>
<td>Nike provides access to its customers through the iPodNano/Sport Kit device and the Nike+ web site.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TRANSPARENCY</th>
<th>RISK-RETURN</th>
</tr>
</thead>
<tbody>
<tr>
<td>For runners, Nike+ makes transparent a huge range of information about running, including routes, training knowledge, and how a runner’s progress compares. Nike learns a lot about individual runners that was previously opaque to the firm.</td>
<td>For runners, Nike+ reduces the likelihood of getting hurt by giving them information about proper training methods. For the company, the risk of losing customers is lowered because runners are interacting with Nike+ frequently.</td>
</tr>
</tbody>
</table>
Access. In order to foster such a complex dialogue, a company must provide its customers with access to each other and to company listeners. In the case of Nike+, access is provided by the iPod Nano/Sport Kit device and by the Nike+ web site.

Risk-return relationship. This guideline considers how to manage the risk/benefit proposition for both the customer and for the company. For example, Nike+ enhances the economic value of participation for runners by reducing their personal risk of injury. Many conversations on Nike+ are about proper training methods to avoid getting hurt: why over-training is dangerous, how to monitor your heartbeat; or whether you should limit your running because of certain recent surgeries. From the firm’s perspective, Nike’s main risk is losing the relationship with the runner. Nike+ lowers the risk of losing customers because runners are interacting with the products and the web site frequently, sharing personal results and soliciting and receiving feedback.

Transparency. The fourth guideline of the DART model of co-creation of value is transparency, in other words, shared information. Nike believes that runners need more insight into how they should train, what routes they should run, or what shoes might be best for their needs. Nike+ offers a wide range of information. By logging into the Nike+ web site, runners can find out which routes are most popular, what distances and paces others are achieving, and how their progress compares. From the company’s standpoint, Nike+ allows Nike to know a lot about the individual runner. Many dedicated runners now record every run they make, their goals, the courses they run, the partners they run with, and, through the web site blogs and discussions, their personal concerns and feelings about running. This input provides Nike with a goldmine of ideas for potential innovations.

By using the DART model to assess the effectiveness of interactions, firms can co-create mutual value continuously, even in existing engagement spaces. For example, runners using the Nike+ system have access to a host of new experiences: they can integrate two passions, music and running; they can track runs with unparalleled precision; and they can take part in an active, new social network. Nike+ enhances runners’ enjoyment of the sport and increases their motivation. For Nike, the learning from these customer interactions creates new strategic capital. The company can now learn directly from the behavior of its customers, both from mining the data and from customers’ direct input on their preferences. Nike can build relationships and trust with the Nike+ community and experiment with new offerings, all the while enhancing its brand.

Nike+ also generates economic value outcomes for both parties. For the customer, there is a reduced cost of training and enhanced productivity when seeking to improve running performance. For the company, there is a reduced risk of customer dissatisfaction and reduced costs of marketing (through positive word-of-mouth advertising). These value outcomes and others from the Nike+ co-creation platform can be displayed in an “X Map of co-created value” see Exhibit 3.

New sources of competitive advantage

For many companies, as products and services become commoditized, as the forces of globalization and outsourcing flatten competitive playing fields, and as activity chains fragment, conventional value chain based sources of competitive advantage are eroding. Seeking new sources of competitive advantage, smart firms now recognize that customers are a source of competence which they can tap into.

As in the Nike soccer and running examples, the components of value creation now entail global resource networks of partnering firms and suppliers as well as communities of
individuals (customers) outside the firm. To grow in this environment companies must have the competence to manage and influence large numbers of collaborators – including skilled individuals, communities of customers, and many varieties of stakeholders around the globe. This de-centering and democratization of the process of value creation is spreading into many industries.

As shown in Exhibit 4, there is a fundamental shift in the basis and process of value creation – from products and services towards experience co-creation platforms, and from a unilateral value creation process by the firm to co-creation with individuals, in short...
Experience Co-Creation. In sum, ECC is about firms jointly creating value, through co-creative interactions anywhere in the business system that generate experiences of value to customers and strategic capital of value to firms.

Notes
2. The DART Model was originally developed by C.K. Prahalad and Venkat Ramaswamy (2004), and enhanced further to show how it can be leveraged to make engagement platforms co-creative and generate co-created value outcomes by Venkat Ramaswamy and Francis Gouillart (2009).

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