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Charles S. Jacobs

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Welcome to Management Focus

… and welcome to the September/October issue.

In 2007 and 2008, Global Entrepreneurship Monitor (GEM) studies examined the rates of entrepreneurship in 43 countries. The data showed that, in all 43 countries studied, the rates of women's entrepreneurship were lower than men's. Furthermore, the per cent of women entrepreneurs was higher in countries where the general income per capita was small and where women had no other option for making a living.

This surprising finding has been explained as a result of the difference between "necessity" and "opportunity" entrepreneurship, with necessity entrepreneurship found to be more prevalent among women in poor countries. Find out more in our featured article, which examines the financial restrictions placed on female entrepreneurialism.

Charles S. Jacobs is founder and managing partner of 180 Partners, and the author of *Management Rewired: Why Feedback Doesn't Work and Other Surprising Lessons from the Latest Brain Science*. For over two decades, he has helped the leadership of corporations around the world to improve the performance of their businesses. He numbers among his clients 50 of the *Fortune* 100, and has worked in Europe, Asia, South America, and the USA.

In this interview he talks about the latest brain-scanning techniques and how they shed light on the workings of the business brain, and how managers' performance can be improved.

Finally, our latest issue of *Management Matters* discusses the subject of implementing innovation.

Remember, log on to our website at: **http://first.emeraldinsight.com** to expand on the topics highlighted in this issue of *Management Focus*.

Best wishes,

Giles Metcalfe

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Women and entrepreneurship – "necessity" versus "opportunity"

In 2007 and 2008, Global Entrepreneurship Monitor (GEM) studies examined the rates of entrepreneurship in 43 countries. The data showed that, in all 43 countries studied, the rates of women's entrepreneurship were lower than men's. Furthermore, the per cent of women entrepreneurs was higher in countries where the general income per capita was small and where women had no other option for making a living.

This surprising finding has been explained as a result of the difference between "necessity" and "opportunity" entrepreneurship, with necessity entrepreneurship found to be more prevalent among women in poor countries, thus pointing to the role played by inequality and exclusion in women's entrepreneurial inferiority.

The GEM study findings

It seemed surprising that the per cent of women entrepreneurs is higher in countries where the general income per capita is small and where women have no other option for making a living (such as Angola, Bolivia and Peru) and lower in countries where the general income per capita is high (such as Israel, Germany and the UK). This has been explained as being a result of the difference between “necessity” and “opportunity” entrepreneurship, with necessity entrepreneurship found to be more prevalent among women.

Related terms used are “push” versus “pull” factors, where “push” factors *force* people to become entrepreneurs, while “pull” factors *attract* them to entrepreneurship. Women in poor countries, it seems, are influenced more by “push” than by “pull” factors.

Latin America reports the highest levels of entrepreneurship for both males and females. As for type of entrepreneurship, in opportunity entrepreneurship the highest gender difference (in relative terms) was found in high-income countries. In necessity entrepreneurship, the highest gender difference was found in low- and middle-income Europe and Asia countries.

The survival rate of women’s businesses is lower in all countries and economic levels, as women are “getting in” but not “getting on.” They seem to be able to reach the stages of qualifying or obtaining the relevant skills and of obtaining entry or setting up a business, but fail in persisting; and finally advancing. This conclusion, which is disturbing at the best of times, is so much more disconcerting in times of economic crisis.

Owning a business is one way for women, as well as other marginalized groups, to climb out of poverty. Self-employment is especially important for women who have difficulty finding employment because of limitations imposed by education, age, social marginalization or language. The establishment of independent businesses has been shown to increase the rate of development of national economy in countries that encourage it. However, in times of crisis, financial institutions are reluctant to lend money, especially to women’s businesses, which tend to be small and vulnerable. And the financial exclusion carries with it other forms of exclusion.

Exclusion and inequality – factors related to female entrepreneurship

Women who perform domestic and caring work are an example of a marginalized group excluded from the labour market. Labour market exclusion increases the risk of social exclusion. As a result of all these forms of exclusion, in times of a global economic crisis, women’s entrepreneurship is likely to be hurt more than men’s. This is especially true for women’s “opportunity” or “pull” type of entrepreneurship, which characterizes women in high-income countries.

> *“In times of a global economic crisis, women’s entrepreneurship is likely to be hurt more than men’s.”*

Even in regular times, research indicates that ventures owned by women tend to under-perform in financial/growth terms, compared with male-owned firms.

Exclusion provides a conceptual framework for understanding such barriers to women’s entrepreneurship and helps to explain the prevalence of women’s necessity entrepreneurship. It suggests that exclusion of women in the labour market pushes some women to become entrepreneurs.

From the perspective of diversity, equality and inclusion, entrepreneurship can be viewed as a means of inclusion for women and other marginalized groups in countries, especially low-income countries, in which they suffer from lack of equal opportunities and social exclusion.

Despite this, men and women perceive entrepreneurs as having predominantly masculine characteristics. Studies also showed that women who perceive themselves as having more masculine characteristics tend to have more entrepreneurial intentions. There is also research demonstrating that characteristics perceived as being feminine present an obstacle for women entrepreneurs. Thus, for example, lack of confidence was shown to have a considerable negative impact on the growth of women’s businesses. The masculine model of entrepreneurship and the aggressive attitudes associated with it are reinforced in a period of crisis, when economies, large and small, tend to become self-protective and exclusive.

Practical implications

In addition to theoretical implications, the role played by inequality and exclusion in women’s entrepreneurial inferiority has important practical implications, especially in times of a global crisis. The first, and most obvious, implication involves governments and policy makers.
If these want to increase the number of female entrepreneurs, they need to create special funds for them. Given that businesses of women tend to be small and local, their funds and lending organizations need to be local or regional. A famous example of this type of economic support is the Grameen Bank, a microfinance organization and community development bank that started in Bangladesh and makes small loans (called microcredit or “grameencredit”) to the impoverished without requiring collateral. A distinctive feature of the bank’s credit programme is that a significant majority of its borrowers are women.

> *“The per cent of women entrepreneurs is higher in countries where the general income per capita is small and where women have no other option for making a living.”*

Another implication, suggested by the experience of the Grameen Bank, as well as research on the importance of social relationships for women and the low levels of self-confidence characterizing women, is the importance of establishing social and business networks for women entrepreneurs.

Interestingly, in some cases, the economic crisis benefits women. For example, it seems that, because financial institutions refuse loans, women are forced to rely on their own resources. When the economic crisis hit, these women were able to adjust the volume of their businesses to the changing markets and thus weather the storm.

Governments the world over are trying to figure out the best ways to get out of the crisis. Offering a wide range of business and entrepreneurship courses for women through centres for the encouragement and support of entrepreneurship, as well as Small Business Development Centres, is a good place to start. Such courses can offer women, as well as other poor and marginalized groups, the first steps on the long road towards equality, diversity and inclusion in times of global melt-down.

This is a shortened version of “Gender differences in entrepreneurship – equality, diversity and inclusion in times of global crisis”, which originally appeared in *Equality, Diversity and Inclusion: An International Journal*, Volume 29 Number 2, 2010.

The authors are Miri Lerner and Dafna Schwartz.

Charles S. Jacobs is founder and managing partner of 180 Partners, and the author of ***Management Rewired: Why Feedback Doesn't Work and Other Surprising Lessons from the Latest Brain Science.*** For over two decades, he has helped the leadership of corporations around the world to improve the performance of their businesses. He numbers among his clients 50 of the *Fortune* 100, and has worked in Europe, Asia, South America, and the USA.

His unique approach enables managers to use new understanding of the brain to comprehensively rethink their businesses.

The mind and change management: an interview with

Charles S. Jacobs

Interview by Alistair Craven

Alistair Craven: Can you tell us about the background to your new book?

Charles S. Jacobs: My professional life is spent working with managers, and I've been struck by how often the management practices we take for granted fail to produce their intended results, even though they're perfectly logical. Whether it's reward systems, performance feedback, or objective setting, they all have a tendency to produce the opposite of what we intend.

When I came across a neuroscience study demonstrating that our minds don't work logically, so we can hardly expect people to behave rationally, I realized that this new field had a lot to offer managers.

AC: To quote you from the book, "changing an organization is the sum total of changing all of the individuals in the organization." Can you elucidate?

Charles S. Jacobs: We know how difficult it is to change the mind of another person. A well-reasoned argument is met with an equally well-reasoned argument that uses the same facts to reach a different conclusion. Our minds have evolved to maintain the *status quo*, and are very good at discounting, rationalizing away, or ignoring information that is in conflict with our version of reality.

Imagine that you're trying to change the minds of 10,000 or even a 100,000 people. It's daunting, and the reason why the vast majority of corporate change initiatives fail.

AC: You note that the No. 1 obstacle to meaningful improvement in business performance is the rapid and effective management of change. Do you think resistance to change can ever be a positive force?

Charles S. Jacobs: The mind's resistance to change has a clear benefit or it wouldn't have been selected out by evolution. Once we've learned a successful approach we wouldn't want to learn it again the hard way. Plus, the conscious mind has limited bandwidth, so we want our response to the expected event to be as automatic as possible, leaving our attention free to deal with the unexpected.

AC: You state that "feedback – both positive and negative – does not improve performance." How did you arrive at this?

Charles S. Jacobs: People are intrinsically motivated to do the best they can. Rewarding them with praise isn't going to make them perform any better. Dopamine, the pleasure chemical in the brain, is released when we're fully engaged in our work, not when we receive a reward. Studies have also shown that praise reduces intrinsic motivation.

Negative feedback from a manager conflicts with our self-image, and so our minds ignore, discount, or rationalize away the feedback. If the feedback is punitive, it stimulates aggression toward the source. It's then in our psychological interests to punish in return, and the best way to do that is to persist in the behaviour being criticized.

We do need feedback to improve, but how employees respond to it depends on where it comes from. It's much more effective for the manager to use questions to encourage employees to self-appraise or to set up systems to provide objective feedback.

AC: According to your research, "managers who produce the best results are the ones who do the least managing." Can you explain what you mean by this?

Charles S. Jacobs: Rather than trying to directly control employees, managers will be more effective if they just accept that the best they can do is to channel the way people are internally wired to behave. This means creating an environment to select out the behaviour they need, and giving people the information to self-manage, such as setting their own objectives within the constraints of the business, using questions to encourage self-feedback, and holding the employee responsible for coming up with their own corrective action.

For many managers, giving up the illusion of control will feel like not managing and an abdication of their responsibility, but it's the only approach that works.

AC: If you had to provide three key reasons why managers should read your book, what would they be?

Charles S. Jacobs:

1. The technology that holds the most promise for improving business performance is our new understanding of the brain.
2. Because of the way our minds work, most of what we do as managers doesn't.
3. Most managers today work harder, longer, and under more stress than ever before. Understanding what neuroscience has to teach us will make our jobs as managers easier and improve our quality of life.

This is a shortened version of "Management Rewired*: an interview with Charles S. Jacobs.*" To read a longer version visit http://first.emeraldinsight.com

Management Matters

Incisive commentary on topical business issues

Implementing innovation

The need to innovate may be obvious. Figuring out how to implement significant innovation that threatens the operational *status quo* can be painful. When resistance to significant change sabotages internal development efforts, CEOs must look outside the corporation for their primary source of innovations.

Necessarily, then, CEOs must set a high priority on identifying and managing strategic alliances that stimulate innovation. Most managers have understood the importance of co-creation of innovation with dynamic partners, recognizing that bold ideas can often be found in emerging markets. Successful managers search methodically for ideas from suppliers, customers, consumers – the entire value chain. Shinichi Sasaki, executive vice president in charge of quality assurance for Toyota, admits that their new quality test facilities "can't test customer satisfaction. For that, we'll have to talk to our customers directly."

Partnering with customers and suppliers, and learning from them before the onset of a crisis – that is, co-creation of unique value with customers – is fast becoming a core capability.

The proliferation of virtual user networks offers enormous opportunity for leverage. These networks represent the contemporary version of communities of practice, informal groups of practitioners in different fields or professions who share secrets of the trade with one another – think fishermen, bread bakers, pilots, strategic planners.

A recent example is InnoCentive's use of a cadre of outside inventors to meet a firm's need for solutions. The enterprise began in 2001 as a start-up incubated through Eli Lilly and Company, a leading US pharmaceutical corporation. InnoCentive is now incorporated as an independent company, partnering with many different firms in a variety of industries to revolutionize R&D practices.

Participating firms post challenges to the research community at large. InnoCentive describes the scientists who attempt the problems as "solvers" and the companies from which these problems come as "seekers." Eli Lilly was the first InnoCentive seeker and helped to formulate the initial challenges and awards. Seekers have posted more than 800 challenges in 40 disciplines, including chemistry, life sciences, business and entrepreneurship, computer science and clean technology. Challenges are now addressed by over 200,000 solvers from 200 countries, the participants in the problem-solving process.

If the seeker is satisfied that the solution worked, a pre-specified monetary award ranging from $5,000 to $1 million is awarded to the solver, and the intellectual property associated with the solution is transferred exclusively to the seeker. Almost $20 million in awards have been posted, while more than 600 awards have been made; over $5 million in awards have been paid out to successful solvers. According to *Business Week*, this represents almost a 50 per cent success rate on problems that had stumped internal research and development staffs.

Who will win – or even survive – in this new environment? Those who enhance customer value in existing markets, those who find new growth markets, those who innovate with distinctively valuable products and services, those who design new disruptive business models – and those who capitalize on the willingness of various stakeholders to participate in the innovation process. Agile innovators who can find new ways to offer both high value and low cost, operating with global sources of supply to serve global customers – these will be the new winners.

Adapted from *Strategy & Leadership*, Volume 38 Number 4.