

Q&A RYAN AVENT

Digital change will transform society



THE DIGITAL REVOLUTION, like the industrial revolution before it, will unleash massive social upheaval, warns Ryan Avent, senior editor at *The Economist*. His new book, *The Wealth of Humans*, describes how automation and globalisation have already produced a glut of labour. This has depressed wages, raised inequality and fuelled fear of immigration, says Avent, pointing out that worse is to come unless we find ways of redistributing the fruits of this revolution.

How does the digital revolution increase inequality?

It turns industries into winner-takes-all (or most) competitions, enabling top players employing relatively few workers to capture an outsized share of the returns. Firms are finding it ever-easier to replace those asking for pay rises – by outsourcing or automating their jobs, for instance.

Won't automation allow us all to enjoy more leisure?

It certainly should. But if people work less, they either need to earn

more money per hour or wealth has to be redistributed to top up their incomes. Rising inequality means the first is not happening, and for now there is little interest in the idea of generous wage subsidies to enable people to work fewer hours.

Will companies still need to exist in the digital era?

Yes, although their boundaries are already shifting as many jobs once done in-house move outside. But businesses provide an environment where particular cultures thrive. When work is knowledge-based, these cultures are critical, creating a shared understanding of the firm's mission. The more complicated technology and the economy become, the more important those cultures are, and the more important the companies themselves become, as a result.

What will it take to achieve what you call 'mass digital prosperity'?

It will involve redistributing resources from the people, firms and countries that are able to capture a large share of the gains from growth to those that are not. This will require social consensus that redistribution is both necessary and just. It will also need political movements with the power to implement the necessary reforms. Those things will not happen quickly or easily. So the main thing it will take to achieve mass digital prosperity is time.



Great leaders tap into emotions

THE IDEA that great leadership is as much about mobilising people and culture as it is about setting strategy is now mainstream. But Eduardo Braun has given it a new twist, arguing that leading by focusing on people and culture is really about leading through emotions.

Braun's recently published book, *People First Leadership*, portrays the new CEO – chief emotions officer – as someone who aligns people behind a vision by generating emotions such as a sense of purpose, pride and trust. To do this, a leader needs certain attributes, including humility, curiosity and the self-confidence to try new things.

When dealing with people, a leader also needs to show empathy and sensitivity, according to Braun, who bases his vision of leadership on interviews with Madeleine Albright, Bill Clinton, Colin Powell and Jack Welch, among others. But it is Pope Francis that he holds up as the prime example of the new CEO. This is a leader, says Braun, who rallies his followers' emotions behind a vision of a church serving the poor, and communicates relentlessly as he seeks to transform the culture of the 2,000-year-old organisation he heads.

Braun is co-founder and former director of the World Business Forum



Why flat teams need nurturing

IN TODAY'S COMPLEX and evolving business environment, many companies are creating flat teams. Without any one member directing the others, "these teams hold the promise of agility, innovation and speed – the magic trifecta in a rapidly shifting market", says Nina Narelle. But flat teams often fail to live up to this promise because businesses treat them like machines, applying rules and processes as inputs and expecting predictable outputs.

Describing tensions between the horizontal nature of the teams and the hierarchical businesses in which they operate as "growing pains" in the evolution of new ways of structuring work, Narelle predicts that one day companies will continually move along a spectrum of organisational structures.

Meanwhile, members of flat teams need to develop new ways of working. "To truly leverage the potential, each member must be willing to show up with all of their insights, curiosities and hesitations," says Narelle. "They must be willing to hold each member of the team accountable, as well as be willing to be held accountable themselves."

Business leaders, she adds, can help flat teams succeed by explaining why horizontal structures require new behaviour and modelling this themselves.

Narelle is a consultant at XPLANE



Do workplace pensions have a future?

Many of us will need to save more or work longer as low interest rates and the prospect of weak post-Brexit growth take their toll on UK workplace pensions. With the current ways of funding these pensions looking increasingly unsustainable, is it time to look at radical alternatives?



MARK SMITH

Dean of faculty and professor of HRM, Grenoble Ecole de Management

Company pensions entrench inequality between groups of workers – most obviously between those with final salary pensions and others with defined contribution plans or no pension at all. While many people earn so little that they can never save enough, some companies still offer such generous pensions that they act as a break on labour mobility. Existing pension schemes also reinforce the gender pay gap, as women not only tend to earn less than men during their working lives, but often retire on smaller pensions as well.

We need to take pensions out of the reward package, so that they are no longer a source of competition between employers, and come up with a system that shares responsibility for making sure older people have a decent income. One option is to require employers to contribute to a general fund that provides a top up to the state pension. High earners would still be able to make their own arrangements to boost their pensions further, but tax-exempt employers' contributions would be used for the common good, rather than the good of a privileged minority.

The current system gives huge levels of tax exemption for contributions to the pensions of those with the biggest pots. That can't be what policymakers envisaged when they introduced tax breaks to encourage contributions to pension plans.



JOANNE SEGARS

Chief executive, Pensions and Lifetime Savings Association

We are all living longer and, unless we work until we drop, we need some form of income in later life. Workplace pensions are an efficient way of putting money aside, both from an employee and an employer perspective, and they are very popular with employees.

There are, of course, questions about how defined benefit pensions can be made more sustainable, but scrapping company pensions altogether is not the answer. The UK government recognised that when it introduced auto-enrolment, which has given employees the right to a pension with an employer contribution that comes with their job. While contribution rates are low at the moment, they are due to rise over time.

Auto-enrolment needs to be seen alongside the changes being made to the state pension. In reality, we're going to see a combination of state and employer-backed pensions, with contributions from both employers and employees, plus whatever else people manage to save. We've tried giving the state a bigger role through the state earnings related pension scheme and the state second pension, but those didn't provide people with the level of benefits they could get through their workplace pensions, and the government decided they were too expensive. These schemes also placed pensions at the whim of changes in government policy.



Modularity

What is it?

In the 1990s, Harvard Business School professors Carliss Baldwin and Kim Clark suggested that modularity – or modular design – helped to speed up innovation. Used in many aspects of IT, especially software development, this technique breaks a complicated technological project into several functionally relevant parts, or modules. Some parts will be specialist but many will be standardised – and thus easily swapped, upgraded or adapted, possibly by outside innovators. Baldwin and Clark’s research found that the more modular a product was, the faster it could be innovated – computers being the obvious example.

The same principle can be applied to organisations seeking to remain competitive in a fast-moving, disruptive, digital age.

What do you mean?

Let’s take the example of a sports utility vehicle. Just one SUV plant will have a network of hundreds of suppliers it needs to control.

When Mercedes built an assembly unit in Alabama, management divided the production process into modules – for example, the driver’s cockpit – each run by its own team, many of which included suppliers.

Thinking more laterally, a company could decide that external expertise is needed to improve a particular module. Nike did this, partnering with private equity firm Apollo Global Management to manage its supply chain. Modular thinking could mean cooperating with suppliers or competitors – Mercedes’ SUV cockpit was built by a plant owned by General Motors. Some modules may be outsourced to improve performance; for example, one in 10 food and grocery companies in New Zealand now outsource sales. On a less radical scale, a modular management style could speed up a business.

Most companies only move as fast as their slowest unit, but Amazon’s modular structure has helped its cloud computing services unit become a \$10bn-revenue business.

The bottom line

By accelerating innovation, modularity means CEOs need to respond quickly to competitors’ moves. They will also need to ensure their organisation has a broader world view, looking beyond traditional competitors to identify trends that pose threats or create markets.

Businesses that get this right will become more entrepreneurial as they realise their opportunities are not limited to the resources they control.

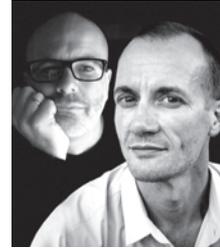


It pays to harness Double X Economy

WHILE EXPLORING the position of women in the workplace around the world, Linda Scott began to see a global economy of women. Acting not only as consumers and workers, but also as entrepreneurs, investors and philanthropists, women were engaged in what Scott calls the Double X Economy. “I could see, for example, that women as consumers in one part of the world affected women as workers in another part of the world,” she says.

Scott points out that, historically, women have been excluded from the formal economy – not being allowed to work for pay, for example, or to have their own bank accounts. This is still the case in much of the developing world. These exclusions mean that women’s economic activities have largely been unnoticed and uncounted. That’s now changing, with huge databases showing how women interact with the economy and how those who do work and prosper contribute to the prosperity of everyone in their communities. Analysing women’s circumstances can, says Scott, help us figure out how to bring more of them into the global economy.

Scott is the Emeritus DP World Chair for Entrepreneurship and Innovation at Said Business School, Oxford



Neo-generalists will shape the future

WE LIVE IN an age dominated by specialists, experts in often very narrow fields. But, as Kenneth Mikkelsen and Richard Martin point out in their book, *The Neo-Generalist*, ‘hyperspecialism’ feeds the growth of silos within organisations and weakens their ability to innovate. It also leads to a blinkered approach to tackling the big issues facing business and society – climate change, migration and terrorism, among them.

Those Mikkelsen and Martin identify as ‘neo-generalists’ are not dilettantes but serial specialists with the capacity to cross disciplinary boundaries. They include Marie Curie, winner of Nobel prizes in both physics and chemistry, and Winston Churchill, statesman, historian, artist and writer.

With their curiosity and responsiveness, neo-generalists have arguably never been needed more than they are in today’s fast-moving business environment. But the authors see them as complementing, rather than replacing, the deep specialists: “We need those hyperspecialists to work alongside people who not only serve as connectors, bridging disciplines, but who see the big picture and bring into play the metaskills that can help shape tomorrow’s world.”

Mikkelsen is a writer, business adviser and learning designer. Martin is a writer and editor



When good workers behave unethically

WHETHER IT'S THE pressure conveyed in a manager's tone or rewards for positive behaviour, 'soft coercion' is often effective in the workplace. But it can have unintended consequences, according to Kai Chi Yam.

In his research paper, *From good soldiers to psychologically entitled*, Yam and co-authors Anthony Klotz, Wei He and Scott Reynolds found that employees compelled to be 'good soldiers' at work were more likely than others to engage in deviant behaviour, such as cursing co-workers. The researchers' explanation draws on 'moral licensing' theory, which says that doing good things can make us feel entitled to do bad things later. They conclude that the key to preventing this is to promote the intrinsic value of good organisational citizenship behaviours in the workplace.

So, could moral licensing theory explain, for example, why some companies behave unethically despite having admirable CSR programmes? Yam sees no evidence that businesses engage in moral licensing, but adds: "It's possible that a CEO would use their organisation's CSR effort as a moral licence to engage in questionable behaviours or use that licence to drive questionable company policies."

Yam is assistant professor of management and organisation at the National University of Singapore



JONNY GIFFORD WE NEED TO FOCUS MORE ON EVIDENCE AND LESS ON FADS

WE ALL USE evidence to inform our decisions, but there are better and worse ways to do this. Unfortunately, we are hard-wired to follow the worse ones. A core finding from cognitive psychology over recent decades is that we constantly use mental shortcuts to make decisions. It's mentally efficient and necessary to stop our brains from overloading, but means we are prone to bias. We may like to think we carefully weigh up the evidence, but typically we don't.

Not all evidence is equal, as this example from the Center for Evidence-Based Management shows: if you're planning a holiday to Ireland, how do you decide where to go for the least chance of rain? Do you rely on the advice of a friend, who knows the country, or regional Irish rainfall figures for the last 10 years? The former is tempting, as we like to hear personal stories, but the latter is far more likely to get you a dry holiday.

We naturally gravitate to ideas that appear cutting-edge but these may just be passing fads. In their 2004 article, 'How to detect a management fad – And distinguish it from a classic', Danny Miller, Jon Hartwick and Isabelle Le Breton-Miller argued that we latch on to

fads because they are novel, in tune with the zeitgeist, replete with buzzwords, espoused by people we respect and promise results from simple actions.

Scrapping performance appraisals is a good example of a current management obsession. After all, why wouldn't you want to be like the great tech companies that have already done it? But to act on the basis of anecdotal case studies alone is sloppy, no matter how attractive the story.

One study is not enough. Context is vital – what works in one environment may not work in another and, even in the same setting, detailed studies can give different results. Pharmaceutical companies have been criticised for conducting several clinical trials on their products, but only publishing the ones that reflect favourably. And a selective approach to research allowed tobacco manufacturers in the 1950s to evidence that smoking was not harmful.

The solution is to systematically review the best available evidence before making decisions. Many employers do now gather quality data, but there is a long way to go before evidence-based practice takes over from management fads.

"We may like to think we carefully weigh up the evidence, but typically we don't"

Gifford is research adviser for organisational behaviour at the CIPD

BEST OF
TED

Fresh thinking from the world-famous incubator of ideas

MALLORY SOLDNER

Advanced analytics manager, UPS

The new age of data philanthropy

Companies could help fix some of the biggest problems facing mankind today, from refugee crises to world hunger, by donating untapped data. Some are already doing it, such as the satellite firm giving away data on the impact of droughts on food production. But businesses could do more. They could donate decision scientists, or at least their time, to unlock insights within the data. That in turn might help to engage and retain people whose skills are in high demand. "This is data philanthropy, and it's the future of CSR," says Soldner. "Bonus – it also makes good business sense."

MARGARET HEFFERNAN

Author and entrepreneur

On daring to disagree

Organisations, for the most part, don't think. Not because they don't want to, but because they can't. "And they can't because people are too afraid of conflict," says Heffernan. Fear of conflict holds people back from raising concerns at work. But it's daring to speak out, argue and disagree that produces the best thinking and most creative solutions. If we want thinking organisations, everyone needs to engage in constructive conflict. The truth, according to Heffernan, will set us free – but not until we have the moral courage to use it.



JIM HEMERLING

Senior partner, The Boston Consulting Group

Transforming business transformation

People often feel energised by change in their personal lives, but turned off by changes at work. So, as businesses adapt to an ever-changing world, they need to transform how they transform themselves. That means putting people first by giving them an inspiring purpose and the tools and skills to succeed during the transformation and beyond, as well as instilling a culture of continuous learning.

It also means going beyond cost-cutting and driving growth and talent development. Equally critical are leaders who have what it takes to win hearts and minds, and make business transformation as energising as self-transformation.



Time for innovators to shift their focus

CLAYTON CHRISTENSEN has probably done more to shake up management thinking than anyone else in the last 20 years. His theory of disruptive innovation, first set out in a 1995 *Harvard Business Review* article co-written with Harvard's Joseph Bower and later explored in Christensen's book, *The Innovator's Dilemma*, describes how established companies can be wrong-footed by smaller rivals.

While market leaders chase the most profitable customers, so the theory goes, their challengers offer 'good enough', cheaper products to otherwise ignored low-end customers. Once the upstarts gain a foothold in a market – or create a new one – they move upmarket, keeping prices relatively low and gradually luring customers away from established businesses.

Despite its huge influence, disruption theory has also attracted criticism. In a controversial 2014 article in *The New Yorker*, historian Jill Lepore wrote that Christensen's "sources are often dubious and his logic questionable". Christensen himself has claimed that the theory is often misunderstood, arguing that describing all industry

breakthroughs as 'disruptive' risks undermining the usefulness of his ideas to those fending off disruptive challengers, or themselves changing the rules of the game.

In his latest book, *Competing Against Luck*, Christensen asks why, despite the vast amount of data companies have about their customers, most innovations fail. He concludes that, instead of trying to understand customers, would-be innovators should look at what customers are trying to achieve – at the jobs they want done.

Christensen and co-authors Taddy Hall, Karen Dillon and David Duncan contend that, if firms understand the jobs customers 'hire' products or services to do, their efforts to innovate will become less hit and miss. Jobs theory, they say, explains the success of Amazon, Airbnb and other fast-growing innovators. It remains to be seen if this concept disrupts conventional management thinking as much as some of Christensen's earlier ideas.

Christensen is the Kim B Clark Professor at Harvard Business School



DAVID SMITH

WITHOUT THE INCREASE IN SELF-EMPLOYMENT, UNEMPLOYMENT WOULD BE MUCH HIGHER – BUT IS THAT A GOOD THING?

NOTHING HAS transformed Britain's labour market in recent years as much as the rise of self-employment. There are 4.8 million self-employed people in Britain, almost a sixth of the total number in work. In 2008, when the financial crisis hit, there were 3.8 million. Without the one million increase since then, unemployment would be considerably higher.

Is it, with the recent Uber tribunal ruling in mind (drivers won the right to be classed as workers, with sick pay and other benefits), about the gig economy? Would these people in the past have been seen as employees, with all the rights that go with that? The answer, I think, is mainly not. The gig economy explains part of the rise in self-employment, but other factors are at play.

Of Britain's self-employed, 3.4 million are full time and 1.4 million work part time. At the turn of the century, according to the Office for National Statistics (ONS), there were 3.2 million self-employed. In the period since, the strongest increase, admittedly from a lower base, has been among the part-time self-employed, up 88 per cent over 15 years, while full-time self-employment is up by a smaller, but still significant, 25 per cent.

What is driving the rise? Older, part-time, self-employed people tend to be happy with the hours they

work, younger people less so. But as well as increasing in absolute terms, the self-employed population has been getting older at a faster rate than the workforce as a whole.

We used to talk about flexible routes into retirement – people winding down gradually. This seems to be happening by choice rather than via legislation. As the ONS points out: “Recent growth in aggregate self-employment is in part related to workers managing their retirement in a different way.”

“It is important we don't throw the baby out with the bathwater.

Most self-employment is beneficial, both to those engaged in it and to the wider economy”

All this suggests that self-employment is having a positive effect, certainly for many who take advantage of it. It's not all about entrepreneurs breaking free from the constraints of a single employer, but neither is it about exploitation of those whose grip on the job market is shaky. Nor, given the persistent upward trend, does one common post-crisis explanation – that some ‘involuntary’ self-employment is essentially disguised unemployment – fit the bill. The evidence is that most people who make the shift to self-employment earn above the average.

So why the bad press? The Resolution Foundation found that typical earnings of the self-employed are lower in real terms than they were 20 years ago, implying they have done worse than employees when it comes to growth in real pay.

Some of this pay effect was, however, down to the changing composition of the self-employed: the proportion who employ others has dropped from 23 per cent to 11 per cent since 2001, while the proportion working more than 40 hours a week has come down from 51 per cent to 35 per cent. Even on a like-for-like basis, though, earnings have been squeezed since the crisis.

There is also the issue raised by the Uber decision, and anticipated by Theresa May's commissioning of Matthew Taylor, chief executive of the RSA, to review working practices across the economy and make sure they have kept up with modern ways of working.

Something is changing. In the wake of Uber, some of Deliveroo's self-employed delivery riders are requesting union recognition and workers' rights. It is important, however, that we don't throw the baby out with the bathwater. Most self-employment is beneficial, both to those engaged in it and to the wider economy. It is essential to a flexible labour market.