ARCHITECTS OF CHANGE

Designing Strategies for a Turbulent Business Environment

JEREMY GHEZ

Architects of Change

Jeremy Ghez

Architects of Change

Designing Strategies for a Turbulent Business Environment

palgrave
macmillan

Jeremy Ghez
HEC Paris
Jouy-en-Josas, France

ISBN 978-3-030-20683-3 ISBN 978-3-030-20684-0 (eBook)
https://doi.org/10.1007/978-3-030-20684-0

This Palgrave Macmillan imprint is published by the registered company Springer Nature Switzerland AG.
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

To A., who helps me try to build a better world, every single day.
To D., E., and B., who remind me why, every single day.

Preface

I wrote this book during the first term of Donald Trump's presidency, as Brexit negotiations were still underway three years after the referendum and as a wave of populist movements shook an already weakened European Union. I found the degree of discontent in countries that significantly benefited from the democratic and free-market system in the past to be a powerful disruptive moment we cannot ignore. In fact, this anger should serve as a powerful reminder of where we've failed collectively. We must remember that demagoguery may soothe short-term pains. But reaching our broader, long-term, collective goals will require a degree of reinvention and transformation of the business environment whose scope we may not have fully grasped yet.

Yet, at the same time, I am also struck by the number of people who want to make a difference, but who believe they cannot do so because of the pressure coming from employers, clients, shareholders and other stakeholders whose metrics of success focus more on short-term profitability than on long-term impact. This book is not only designed to draw attention to the significance of the change that is needed to tackle major threats, most notably weakening social contracts between people and their governments and global warming; it is also meant to provide a toolbox for those individuals wanting to have an impact and who could help transform that anger into a true force of change. It is meant for decision makers in the private sector and the public sector who are looking to transform the way we do business and the way we approach key global challenges we will need to tackle in coming years. And even as those challenges evolve, I hope that this book continues to provide some food for thought, as well as tools and strategies that will help people in continuing to transforming their business environment in a meaningful way.

Every generation seems to believe it is living in an exceptional period, and this generation is no exception. There is nothing illegitimate about that sentiment. But it comes with a responsibility: remembering that, even as individuals, we are empowered to make a difference. I hope this book can be part of the conversation on how we do that, today on the critical questions of weakening social pacts and global warming, and tomorrow, on those issues that will shape the business environment of the next generation.

May 2019 Jeremy Ghez
Jouy-en-Josas, France

Acknowledgments

Writing a book is no easy task—far harder in fact than what I imagined, considering this is a topic I've been teaching for such a long time. In fact, I've come to realize that when you are finally putting on paper what enthralls you, you challenge every word you write, you wonder about the accuracy of every single statement you make, and you question every argument you formulate. Reaching the end of the process is all the more intellectually exhilarating. So you cannot possibly forget who made this possible along the way.

There was, of course, the team at Palgrave Macmillan to whom I am immensely grateful for giving me this opportunity. Liz Barlow initially made this happen and I thank her for her very thoughtful comments at the beginning of the process. Lucy Kidwell provided extremely useful guidance throughout the process and I'm very thankful for that.

There were, as well, the conversations with HEC Paris and RAND colleagues throughout the years. I'd like to thank in particular Matt Bassford, who has always been a reliable friend and who provided extremely helpful comments on the book proposal, as well as Kai Ruggeri, with whom I have taught many classes in managerial economics and business environment over the years. Kai has proven to be not only a great colleague but also an invaluable intellectual partner in this process. I am also thankful for my endless conversations with quite a few colleagues on key topics ranging from global politics and strategy to sustainability and social innovation. Pascal Chaigneau has not only been a wonderful colleague and a great friend but also an invaluable mentor. I was also fortunate to talk about the many issues that this book discusses with many talented people, including Eloic Peyrache, Andrea Masini, Florian Hoos, Nathalie Lugagne, Alejandra Cervio, Olga Hein, Christelle Bitouzet, Alexandre Cadain, Nicolas Lemoine, Jean-Philippe

Couturier, Matthis Schulte, Ai-ting Goh, Eric Mengus, Corey Phelps, Rodolphe Durand, Bénédicte Faivre-Tavignot, Ludovic Subran, and Bernard Garrette. These conversations provided me with more insights than what I could possibly describe here. I am also grateful to Mary-Joyce Ahsue who has been giving me administrative support for the past ten years at HEC, and that is, by no means an easy task. Last, but not least, I'd like to thank Phillipe Oster and his team, including Sophie Garnichat, Julie Dobiecki, Maud Clerc, Aniza Pourtauborde (without forgetting Leyla Douci). They have all done so much in helping me hone my message over time. I am, without a doubt, forgetting to name many other colleagues I have interacted with and do hope they will forgive me.

I would also like to give a special recognition to my colleagues Lise Penillard, Déborah Keraghel, and Sophie Mebo (and all of her crew!) who have become part of my closest professional family in this exploration of sustainability and the global business environment. These words do not do merit to what the three of them represent for me—but somehow, I know that they know what I mean. I'm also grateful to all of the students and participants whom I have interacted with and who shaped the content of this book—far more, in fact, than they will ever know.

There are great interviews in this book as well. I met Jim Thomson, who sat on my dissertation committee, and Greg Treverton, who is the person who taught me almost everything I know about strategic analysis, a very long time ago. It would be hard to overstate what Jim and Greg have represented for me: both have been tremendous mentors over the years, providing me with their continuous and unwavering support. I am also grateful for the time they gave me on this project—and even more so for always answering my emails with such enthusiasm. There is also Alastair Newton; I once reached out to him with a simple email and was surprised to see how someone who was a total stranger to me then could be so generous with his time and his insights. That generosity never ceased. I am thankful to him too, not only for his time on the project, but also for helping me think about these complex issues over time. I have a similar story with Pascal Picq, whom I once met at a conference, thinking I had in front of me someone who was way out of my league. Yet, he never let me think that for a second more and I am grateful to him too for his time and his intellectual generosity in this process and throughout the years. I would also like to thank Joël Barbier who is the most informed observer of the Silicon Valley I have ever met. Joël has not only provided me with invaluable insights about a world that often stumps me; he has also been a thought partner about this changing and, at times, scary world. There is also Justin Vaïsse—yet again another extremely generous person when it comes to intellectual curiosity (in spite of an extremely busy schedule), and to whom I am so grateful for his time and his insights. Finally, there's Jean-Noël Kapferer, a real living legend when it comes to luxury and brands. Those are topics I always thought were very far away from my areas of interest. I just needed to sit through one of Jean-Noël's sessions, watch him bring these topics to life, and be very quickly convinced of the contrary. He, too, will never really know how thankful I am for his time.

There are also the colleagues who gave their time to reviewing drafts of this book. I met Gerard de Maupeou a while back, at a time (and I am not lying) when I was very close to quitting academia. Gerard is one of the people with some of those untold magical powers that transform a very dim reality into a glass half-full. I highly appreciated his comments on this book. Roger Hallowell also provided precious comments on a past draft that helped me bring this book to the next level and I am so grateful for his time. Finally, Randy White provided more help than I could ever hope for. Randy was not only generous with his time and his insights but also extremely supportive in this grueling process during which it feels as if we met a second time.

Any remaining mistakes are mine, and mine alone.

Last but not least, there are those, backstage, who, day by day, do not only provide you with the environment you need to thrive professionally, but who make life just worth living. My parents, obviously, who are here every step of the way. There are also big brothers in the story, as well as in-laws (all kinds of them, in fact, ranging from mother and father, to brothers and sisters), nephews and nieces who may not necessarily see their imprint on this work at a first glance—but they should. And then, there are, of course, the three most wonderful creatures I know: my three children who will always be the achievements I am most proud of and who are the reason why I want to bring change to this world.

And there is, obviously, their mom, my wife and my partner in more ways than she thinks. I could always thank her and say I love her. But those words (or any other words for that matter) would not do any justice to how grateful I am to her and what she does, day in and day out. After all, this book isn't mine; it's ours. And this is just a start. So let's see where life takes us next, shall we?

Contents

List of Figures

List of Tables

1

A Tale of Two Professions

Regardless of where you are from, the industry you work in (or) industry your work is in or your personal political beliefs, chances are that there are plenty of angry people around you. If you think this anger is justified but not unavoidable, if you believe this anger calls for deep transformations in the way we live and do business, and if you are looking for new and meaningful opportunities for change in this easily disrupted business environment, then this book is intended for you.

Reasons to Be Angry

This anger is fueled by legitimate anxieties about a changing world of people who feel they have lost their bearings. In this world, past political systems, that were once beacons of stability and peace, are not providing these people with the comfort about their status and guaranteeing their economic and social prospects anymore. Constant disruptions and challenges to what seemed yesterday's natural order are leading to the advent of a scary, unknown and tempestuous world in which what you deem improbable is likely to happen and in which you thought was likely may actually never happen. The political processes and business models that we often took for granted in the past now appear dysfunctional at best, and obsolete at worse.

The sense that those in power, in business or in government, or those who *influence* those in power, are completely disconnected from the reality of the most vulnerable—or the ones who *feel* the most vulnerable—only compounds this anger. This disconnect often seems to be at the heart of demographic,

J. Ghez, *Architects of Change*, https://doi.org/10.1007/978-3-030-20684-0_1

racial, and generational divides that we observe across the globe. For instance, in the United States as well as in Europe, the opposition between a rural and conservative electorate and a more urban and progressive one may not be new but certainly everlasting and highly relevant when it comes to understanding recent electoral surprises and social tensions. Similarly, we can observe tensions across racial groups that result from differences in narratives about integration and meritocracy: disagreements about how well a society or a political system is working today for all of its citizens stem from opposing (and yet very authentic) views about a society's reality. Last but not least, the generational divide between a relatively older age group that often feels more legitimate because of its experience and a relatively younger age group that feels victimized by the mistakes (and, at times, the recklessness) of its elders is no less significant in explaining this disconnect that can make power transitions between generations all the more complex to manage.

Ultimately, the combination of these anxieties and this disconnect leads public opinions across the globe to feel as if they are losing control of their fate, and perhaps more disturbingly, of that of their children. Anger is not only a natural response; it is, perhaps, the only response possible for those who feel powerless. In turn, in response to this anger, there are two types of influential actors: those looking to surf on that anger and that disconnect in order to obtain some personal gains and consolidate their influence in a broken system and those hoping to transform that anger into meaningful action and transformation, in particular by bridging the disconnects.

This book unapologetically ignores the first category of demagogues and looks to decisively empower the second, the architects of change, looking to bring meaningful and durable change to a business environment that so desperately needs it. Here is why.

The Paradox of Change

There is no dearth of reasons to feel powerless in this business environment.

The Crises of a System

Defining the key characteristics of the business environment we live in is no easy task. Some would use the free-market liberal democracy model that international organizations have promoted since the end of World War II. Yet, that definition excludes a significant part of the world population, not least of which are two major powers, namely China and Russia—the case of India being debatable.

Others would rely on the term "globalization" which describes the gradual process of integration of national and regional economies that accelerated in the nineteenth century before taking a full stop in 1914, before starting again, gradually in 1945 and accelerating once again in the aftermath of the Cold War. This process of integration has significantly increased the degree of *interdependence* between different players. It has lifted huge chunks of the global population out of poverty and has become part of a global reality that no real serious influencer, including a non-western one, can ignore.

Yesterday, globalization was about the promise of a wealthier, a more efficient, and a more transparent world. Today, it faces the risk of losing its momentum, on at least three levels.

First, some of the major actors of globalization, namely the states, may be far more constrained in their ability to act than they ever were. In fact, in the wake of the 2008 Recession, western governments in particular carried out substantial efforts to preserve the global economy. This effort resulted in high levels of public debt, meaning that states do not have the same firepower to influence the global business environment as in the past, at a time at which challenges are no less significant—quite to the contrary. Technological disruptions like automation and artificial intelligence are putting a wide array of workers at risk of losing their jobs if they do not upgrade their skills. Perhaps even more fundamentally, the lack of productivity gains and our inability to retrain those displaced by automation, may have well undermined our ability to bounce back durably in a landscape that is not getting any easier to navigate in—with the growing cost associated to climate change-related crises in particular. The constraints on these governments' ability to act may limit their efforts in tackling these challenges.

The model is undergoing a financial crisis as a result (Fig. 1.1).

Second, low levels of economic growth and increasing political polarization across the globe suggest that the model is not as efficient as it used to be in generating wealth and stability. This is fueling fears about the long-term prospects of economic growth which some economists are describing as a parenthesis of human history. Low or no growth would be the new normal in a system that desperately needs to adapt to the changing political, social, technological and environmental landscape—especially in the new age of social discontent and climate change. This would undermine the system's ability to continue to integrate all populations, in particular the most modest and least skilled ones. It would also undermine humanity's ability as a whole to survive in a world characterized by deep climate instability.

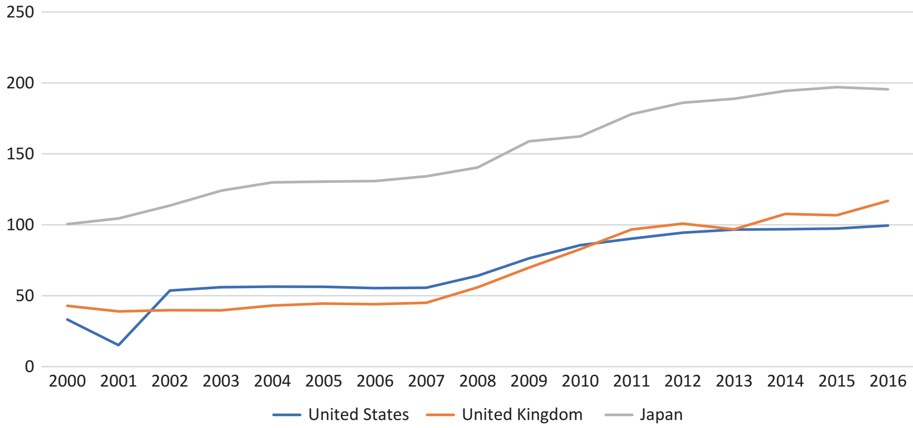

Fig. 1.1 Central government debt: total (% of GDP). Source: World Bank

Table 1.1 Real GDP growth rate by decade (in %)

	1960s	1970s	1980s	1990s	2000s	2010–2017
United States	50	37	36	35	15	16
Japan	144	51	49	11	2	8
European Union	56	35	24	20	13	10
Brazil	67	106	22	24	33	3
China	22	69	134	149	146	67
India	41	26	63	66	87	59

Growth rates have slowed down in OECD (Organisation for Economic Cooperation and Development) economies since the 1960s in a substantial and undeniable way. Recent data suggests emerging economies may be experiencing the same trend, but it is far more recent and on the question of whether it will last, the jury is still out.

The model is undergoing a crisis of efficiency as a result (Table 1.1).

Last, in yesterday's world, wealthier countries could act as if they were models of transparency, political stability, and economic dynamism that other countries could emulate in an increasingly interdependent world. The world has not become any less interdependent—but the model to emulate seems to be increasingly less attractive. In fact, high levels of discontent across western countries are putting into question the traditional mandate of the state. An increasing chunk of public opinions appear disenchanted with the democratic system which is not necessarily the political aspiration it was in the aftermath of the Cold War, a quarter of a century ago. The prospect of durably low growth is also fueling fears of social demotion in populations that once believed in the promise that the prospects of their descendants would always be better than theirs. If that promise in broken, it may be hard for them to consent to the efforts their elders made when in terms of taxes and respect for generally accepted societal norms. As one study has shown, "the proportion of younger citizens who believe it is essential to live in a democracy" is now falling in the minority in countries like the United States, Great Britain, the Netherlands, Sweden, Australia, and New Zealand. The authors add:

> this disaffection with the democratic form of government is accompanied by a wider skepticism toward liberal institutions. Citizens are growing more disaffected with established political parties, representative institutions, and minority rights. Tellingly, they are also increasingly open to authoritarian interpretations of democracy.

The study concludes that public attitudes towards democracy are not the only ones affected; political behavior, too, is changing: "In recent years, parties and candidates that blame an allegedly corrupt political establishment for most problems, seek to concentrate power in the executive, and challenge key norms of democratic politics have achieved unprecedented successes in a large number of liberal democracies across the globe."[1]

The model that once championed transparency and political stability is now undergoing a crisis of legitimacy as a result.

The Other Part of the Glass

These crises are all too real. Yet, here is a paradox: those crises notwithstanding, humanity has never been wealthier, healthier, and more educated, and more empowered than it is currently.

The fact that humanity has never been this wealthy is a very long-term trend that British historian and economist Angus Maddison has illustrated in his well-known dataset (Fig. 1.2).[2] Between 1700 and 2016, the GDP (gross domestic product) per capita measured in 2011 US dollars was multiplied by 21.2 in France, by nearly 16 in the United Kingdom, and by 23.6 in Germany. In the case of the United States, the earliest data dates back to 1720 and GDP per capita was multiplied by 39 between 1720 and 2016. Data is more limited for poorer economies; yet, the trend, over a shorter period of time, is no less significant. The GDP per capita of one of the poorest economies of the African continent, Malawi, was multiplied by 2.35 between 1950 and 2016. Similarly, it was multiplied by 3.22 in Bangladesh and by 2 in Bolivia.

Admittedly, increasing wealth alone is not sufficient to make the argument that humanity is better off. Yet, measures of health and education point to the very same story. In particular, the Human Development Index (HDI) has

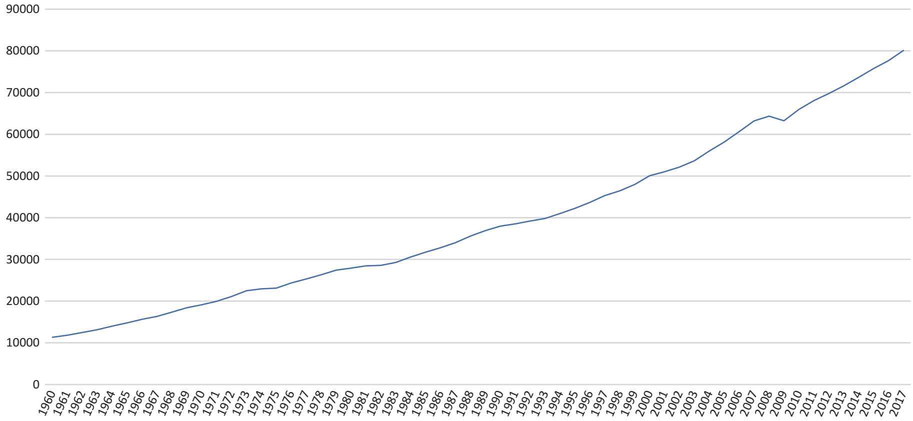

Fig. 1.2 World GDP (constant, in billions of 2010 US$)
The growth of world GDP has been almost continuous since the 1960s. This substantial growth has transformed societies all across the world and has lifted millions out of poverty.

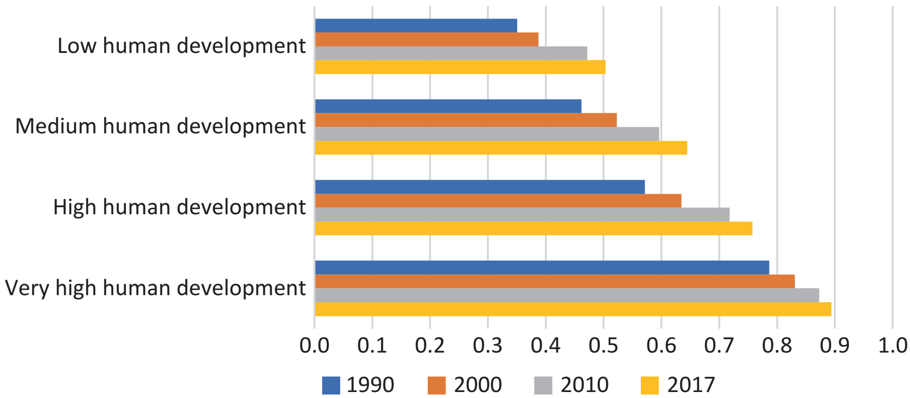

Fig. 1.3 HDI by country group
The progress of HDI indices across the globe between 1900 and 2017 is unquestionable according to UNDP (United Nations Development Programme) data. The lower the level of human development, the bigger the progress made. The gap between the most developed region of the world and the least developed is also closing.

continuously increased worldwide since 1990—at a yearly growth rate of 0.73%. That growth is more modest in OECD economies (0.49%), where there is less room to improve, and yet is still a resilient trend. It was, as expected, far more spectacular in Sub-Saharan Africa (1.12%) and even more so in South Asia (1.39%). These trends point to a healthier and more educated workforce, worldwide (Fig. 1.3).[3]

These trends of increasing wealth and improving health and access to education are significant even over the timespan of a decade. According to World Bank data, global life expectancy went from 69.5 to just over 72 between 2006 and 2016. The global share of the population living with $1.90 per day or less dropped from 20.7% in 2005 to just below 10% in 2015. According to UNICEF (United Nations International Children's Emergency Fund) data, neonatal mortality rate dropped from 24.3 for a thousand in 2007 to 18 for a thousand in 2017. These are not just long-term trends but also changing realities happening under the very eyes of this generation.

Empowerment is certainly harder to measure quantitatively. Yet, there is plenty of evidence suggesting the trend is pointing to the same story: whether it is a more informed population in a Northern African country able to hold truth to a long-lasting dictatorship or the increased ability of a group of citizens in a Western country to organize itself and undermine the traditional influence of political parties and labor unions, the notion that the ever-more connected and knowledgeable citizen is becoming increasingly influential seems widely shared.

The Perspective of History

Ultimately, this business environment was able to improve the fate of an incredibly significant number of people—and the outcome is indisputable here. But it seems ill-prepared to face the new set of challenges that the twenty-first century is bringing to the table and requires significant reinvention. In fact, these three trends on wealth, health, and empowerment cannot erase by themselves the three crises of the system. But they are powerful illustrations of the assets that are at the disposal of those actors seeking to drive change in an environment ripe for disruption.

In fact, as we look to put these challenges in perspective, we must not forget that history can be a useful guide, in particular because we, as humanity, have been at this critical point once before, just prior to the period that historians now refer to the Renaissance. And as two authors Ian Goldin and Chris Kutarna have argued elsewhere, "The forces that converged in Europe 500 years ago to spark genius and upend social order are present again in our lifetime. Only now they are stronger, and global."

The anxieties and the identity crisis that we are going through should not be surprising as a result: populations who thought of themselves as "middle classes" and as pillars of modern societies, driving incremental changes to improve the overall resilience of societies, feel particularly uneasy, dispossessed, and disenfranchised in these uncharted waters. They believed that the system would guarantee the continuous progress of the prospects of those who worked hard and who played by the rules. They may feel they have taken that progress for granted, given fears about unemployment and social demotion, about economic slowdown and rising protectionist and populist sentiments, and about our sense of physical security in the wake of pandemics and acts of violence. So instead of looking to tame these forces upending social orders and upsetting our economies, we are scared stiff by uncertainty.

As Goldin and Kutarna observe:

> The last Renaissance was a time of tremendous upheaval that strained society to, and often past, the breaking point. Now, we risk fumbling badly again, as individuals, as society and as a species—and we've had some big stumbles already. It's made many of us cynical and fearful for the future. If we want to attain the greatness for which humanity is once again eligible, we must keep faith in its possibility. We must do all we can to realize it. We must broaden and share more widely the benefits of progress. And we must help one another to cope with the shocks that none of us will see coming.

This business environment, in other words, is custom-made for architects of change.

Time to Act—But How?

We understand why amid fears about durably low economic growth and about increasing global political, social, societal, technological, and environmental tensions worldwide, it has become fashionable for senior executives to worry and complain about how unstable and turbulent the world has become. How does one thrive in such an unamicable environment?

These fears are legitimate—and documented. But they may drive our focus to the wrong set of priorities: instead of arousing our curiosity, encouraging us to be imaginative and inviting us to be bold in looking for fixes to the most mind-boggling and pressing issues of tomorrow, these fears are forcing us to put the emphasis on the issue of the day, that is, on what is part of our comfort zone. Changing mindsets is essential.

The Story of the (Un)needed Hero

In turbulent times, it is rather natural to look for heroic role models. The fireman easily fits the job: when the house is burning (as executives often argue in times of crisis), who better to fight the flames of the day and to put out the most pressing fires threatening the life of a company, or a country? The figure of the fireman is also impactful because it allows leaders to mobilize and direct resources toward a common, tangible goal and thereby show off their leadership skills. After all, no one ever blames a leader for putting a fire out. That yields immediate results—unlike the much-despised talking heads, who are not especially known to act.

This is why fears about durable economic stagnation and political instability feed the "fireman" mentality: a wide range of actors, who are very happy to fight the flames of the present, often overlook the possibility that the house may have already burnt down. And a fireman rarely has the luxury to maintain the curiosity and the imagination that is required today to act on and fix the most mind-boggling and pressing issues of tomorrow. That is the role of architects, willing to bring about change to the edifice so as to make it more robust and sustainable.

And yet, dysfunctional systems and obsolete models do not necessarily require that fires be put out. Instead, they demand to be redesigned and rebuilt, or even completely reinvented. In fact, firemen, as arduous as they may be in fighting the flames of the day, may not always see that the house has already burned down and may be ill-suited to rebuild it. This is why this world is probably not a fireman's playground but that of an architect's. In practice, it requires far more courage to start thinking and acting like an architect of change.

To be sure, the architect figure may look far less impressive because it may seem far less heroic. Yet, in this turbulent business environment, it may be time to repair this injustice, in particular because we should be especially wary of decision-makers who constantly look for fires to put out, instead of looking for opportunities to repair and to rebuild. Being an architect may be less appealing on paper, given the technical skills, the precision, the attention to detail and the patience it requires. But it is decidedly the figure that deserves more attention in a business environment that we openly describe as ripe for disruption.

Meet the Architects of Change

Meet Daniel, a young banker filled with ambition—and not only financial ones. Daniel understands the conversation about the world entering uncharted waters all too well: traditional measures of risk are not shedding enough light on the phenomena and the transformations he is seeing worldwide. The real challenge to him lies not only in understanding these changes but also in bringing a whole industry to embrace them and to modify its analytical grid accordingly—because the ramifications of the industry failing to do so will be as wide as they are significant.

Meet Emilie, a bright, determined, and newly promoted executive in the procurements department of a big company that is looking to adapt to the new business environment. Everyone inside the company may be, in theory, ready to embrace change, in favor of more sustainable and inclusive practices in particular. Yet, in practice, Emilie still needs to fight against the temptation to revert to yesterday's dogma of short-term benefits and measures of returns. The real challenge for Emilie lies in mobilizing forces of change and describing a sufficiently realistic and yet appealing vision of the future so as to get the company to transform not only its practices but its whole cultural mindset as well.

Meet Anita, a seasoned entrepreneur, with a simple and yet powerful idea in mind: too many old clothes are left unused because they are worn out, or worse, thrown out, when they could actually have a second life. Anita is in a unique position to understand what clients want because she meets with them and works on an existing product that already has a history. The ultimate result is handmade and tailor-made—unlike the many other substitutes for those old clothes. Her challenge is not only about recycling; it is also about giving a second life to a defining object for a person looking forward.

Meet Bella, a young and already successful consultant, helping a wide range of for-profit and non-profit actors worldwide. These actors share a common characteristic: they all hear and understand the injunction to be "innovative"; but they also have the same dirty little secret—they are not even sure anymore what that actually means. As a result, for those for-profit and non-profit actors, business as usual seems like the safest way to operate. Bella knows that not taking any risks is a risk itself. Her challenge lies in going beyond the world is ripe for disruption, and exploring with her clients the unexplored, the unimagined models of tomorrow.

Daniel, Emilie, Anita, and Bella are all architects of change in the making. They are anti-fatalist and anti-conformist by design. This means refusing what destiny has in store for you and constantly seeking to challenge the status quo. They are also agitators, looking to break the consensus of the day by broadening society's horizons and identifying new opportunities to create value. As architects of change, they are not content with just making a short-term profit, in particular because they are not in the business of passively accepting their business environment as it is. Instead, they are trying to actively analyze