



# WINNING IDEAS.

Leading through change and uncertainty.

The Management Articles of the Year  
February 2016



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# FOREWORD

## SIR PAUL JUDGE



Many organisations are continuing to recover from the financial crisis with more growth and investment in new products and processes and fewer redundancies. However the impact of change remains significant. CMI's *Quality of Working Life Survey 2016* revealed that restructuring remains the most prevalent form of organisational change and that the positive economic trends are characterised by significant demands on managers' working lives. Motivating and engaging teams continues to be a core skill for leaders.

In the circumstances, it is perhaps unsurprising that increasing complexity, uncertainty and change are themes running through many of the articles submitted this year.

The top-rated article focuses on practical approaches to effectively managing complexity and creating meaningful change. Sustainable, high performance workplaces require effective engagement and involvement in the change process and a focus on decision-making.

The remaining winning articles identify interesting insights including change still being seen as a threat, the adverse effect uncertainty can have on decision-making, how negotiation processes are changing in China and how accountants could contribute more to strategic performance.

We are grateful to the academic community who submitted articles this year and supported the competition and of course to the CMI members who have taken the time to read, rate and review the articles and provide their constructive comment and valuable insight.

I hope that the articles presented here will provide practical insights and solutions to the challenges you may face in the months ahead.

A handwritten signature in dark ink that reads "Paul Judge". The signature is written in a cursive style with a horizontal line underneath the name.

**Sir Paul Judge CCMi**

Chairman of the Academic Advisory Council, Chartered Management Institute

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# INTRODUCTION

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As the only chartered professional body dedicated to promoting the highest standards in management and leadership excellence in the UK, CMI provides forward-thinking advice and support on management and leadership issues for more than 120,000 members and thousands of wider stakeholders.

CMI aims to bring the best research on management topics from leading universities and business schools to managers in the workplace. This is why we launched *Management Articles of the Year* in 2011, an annual competition open to academic researchers affiliated to a UK university.

In its first year, the collection focused on the interrelated themes of leadership, change and communication, demonstrating the variety of academic management literature that interested CMI members that year. In 2012 the collection included issues as diverse as the quality of working life and the potential benefit for small and medium enterprises of effective customer relationship management. The following year the collection encompassed issues about well-being and sustainable engagement to strategies that work and the returns from improving management practice. Last year, a range of topics included the structure of morale at work, managing religious expression and blueprints for women in business.

Now, in the fifth year of the competition, the collection includes articles on issues aligned to complexity, uncertainty and change. These ranged from working towards sustainable, high performance workplaces to leadership through change, uncertainty and decision-making, negotiation processes in China and strategic accounting.

The purpose of the competition is to assist universities in disseminating their research findings to a wider audience, help them demonstrate societal impact and raise the profile of their work with employers. It will also benefit practising managers by providing them with insights from credible, authoritative and leading edge research.

The articles entered into the competition were reviewed and rated online by CMI's membership for their usefulness to practising managers. Articles achieving the highest average ratings were selected for publication.

We are grateful for the high level of support we have received from the academic community and CMI's membership. We are pleased to again be working in collaboration with the British Academy of Management, the Chartered Association of Business Schools, the Associations of MBAs and the British Library.

To view all the articles and the CMI members' reviews, go to **[www.managers.org.uk/toparticles](http://www.managers.org.uk/toparticles)**

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# ABOUT THE ARTICLES

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This year the themes that caught the attention of our judging panel are change and coping with increasingly uncertain, complex and ambiguous operating environments.

In the winning article, *High performance workplaces: a practical approach to managing complexity and coping with change*, David Griffiths and Margaret Inman present a new framework for distributed decision-making in organisations, which is illustrated by a case study in a US accounting firm. Drawing upon behavioural research, the Clarity Framework is a sustainable, high performance approach which involves self-organisation, collaboration, learning, experimentation, effective engagement and building trust.

Relatively few people see change as an unalloyed good thing. Research by Viki Holton and Fiona Dent from Ashridge Business School in *Change: opportunity or threat?* confirm that leaders and organisations are still making the same mistakes when it comes to effectively engaging employees. Despite the change process being planned as an opportunity, managers lack the right skills which often results in change being seen as a threat. Too often top management are not fully engaged in the change process: communication, staff engagement, vision and leadership are success factors. They need to remain totally involved and committed throughout. Leaders who withdraw too early do so at their peril.

The challenges of performing in a turbulent world are tackled by Darren Dalcher in *Learning to live with dragons: rekindling the quest to tame uncertainty*. He highlights how fear of the unexplored and unknown affects decision-making and the wider impact this can have on performance. Managers and leaders can develop new ways of thinking about the future and adapt their skills to tolerate the volatile, complex and uncertain. Thinking tools are introduced which can help cope with the unknown, by focusing on a positive or negative aspect then 'thinking backwards' in small steps to discover critical success factors.

Jules Goddard and Philip Whiteley identify the opportunity for accountancy to gain a more strategic role in organisations and to influence performance more constructively in *Accounting that counts: management accountancy in an age of anxiety*. The authors contend that the practice of accountancy tends to measure what is measurable rather than what matters. Two vectors of change have potential to create value – behavioural accounting and strategic accounting. Accountants must challenge cognitive biases to help leaders come to more rational decisions. Also accountancy needs to develop a more outward-facing market-centred perspective. By integrating behavioural and strategic accounting vectors the organisation's leadership can ask the right questions and receive better calibre answers.

In *International and China business negotiations strategies*, Henry Wang highlights the rapid change and increasing complexity of international negotiations. The author's analysis of high level business negotiations cases reveal a move from the traditional win-loss distributive model of negotiations to a modern, more complex win-win integrative model. Features of this more sustainable win-win model include the desire to reach a joint agreement and to seek maximum benefits for both parties. In China both parties need to make extensive advance preparations to select and appoint the negotiation teams, develop strategies, undertake competitor analysis and make use of negotiation scenarios.

# ARTICLE 1

## High performance workplaces: a practical approach to managing complexity and coping with change.

**Dr David Griffiths**, Learning Design Advisor at Swansea Business School; founder of University of Edinburgh start-up, K3-Cubed Ltd.

**Dr Maggie Inman**, Head of Swansea Business School, University of Wales Trinity Saint David.

### Introduction

There has been much discussion about the future of work, where increasingly Volatile, Uncertain, Complex and Ambiguous (VUCA) operating environments, often referred to as 'increasing complexity,' are challenging the ability of leaders and managers to anticipate, sense and react to change. This is evidenced in a recent KPMG report with 1,400 executive level respondents (KPMG, 2011):

- 94% agreed that managing complexity is important to their company's success.
- 70% agreed that increasing complexity is one of the biggest challenges their company is facing.
- 62% declared that increasing complexity would require them to develop new products/services.

The aim of this article is therefore to introduce a practical approach to managing complexity and coping with the change brought about by such environments. This is illustrated through an explanatory case study in a top 400 accounting firm in the United States.

### The challenge

The underlying causality for VUCA conditions, includes increasing connectedness within an organisation's external environment, usually associated with the proliferation of information technology, and interconnectedness or interdependence: "The intertwining of organisations' value chains, corporate governance, and financial flows results in exposure to shocks at the periphery that can move to the centre of an organisation in rapid succession" (Seijts et al., 2010, online). Juxtapose these conditions against the expectations of the still emerging Millennial workforce, with their desire for collaborative, open, one-size-fits-one, work anywhere, anytime and on any device workplaces (Morgan, 2014), and it is no wonder why business leaders consider managing complexity to be their biggest challenge. This

creates intense pressure for leaders and managers to ensure that their organisational structures, systems, policies and practice sync with such environments. Quite simply, any organisation operating in a dynamic environment must itself be dynamic. This means organisational structures, systems, policy and practice, including methods for making sense of the world, must reflect the demands of such environments. Therefore, responses to a complex, emergent and non-linear world cannot be linear or based on command-and-control.

This requires leaders and managers to see and manage the whole picture, an impossible task for one person in a hierarchical leadership model. Complexity requires leaders and managers to engage and involve their people, in order to rapidly anticipate, sense and respond to ever increasing changes in the organisation's environment – think of this as decision-making and problem-solving using a distributed human sensory network.

These challenges are well-illustrated by ABCPA, a successful top 400 mid-west United States accounting firm, founded in 1956, with sixty employees (70% being Millennials), across two locations. In 2013 the firm's partner group sensed that their environment was changing, driven by the emergence of new financial reporting frameworks and increasingly complex operating conditions, defined by a growing demand for more personalised service offerings. There was also recognition that the firm was potentially not reacting to change as quickly as it should. "As business owners.... we get so involved in the day-to-day of taking care of clients... you become less effective if you don't spread the responsibility around" (ABCPA Partner).

The partners were also interested in expansion of the business, as a way to enhance its long term future. Here they realised that there was a lack of current employees on a 'partner track,' which could impact plans for growth. "Even though people told us we were a great place to work, they weren't sticking around for partnership" (ABCPA, Managing Partner). This led the partner group to seek assistance in developing a sustainable, high performance workplace.



ALMOST ALL STAFF REQUESTED GREATER TRANSPARENCY IN DECISION-MAKING, ESPECIALLY CONCERNING GOALS, APPRAISAL, REWARD, MENTORING AND CAREER DEVELOPMENT.

### The response

The lead author of this article was engaged on what became known as the Clarity Project. “We tried several approaches on our own. They haven’t been ill-received, but the buy-in wasn’t there. We were going high on the mountain and coming back with the stone tablets” (ABCPA, Managing Partner). Twelve months of work began by reframing the problem as a phenomenon (see Madsbjerg and Rasmussen, 2014), asking: “What does a sustainable, high performance working environment mean for the people in this firm?”

This led to 100% staff engagement via Change Cafes, design workshops and one-on-one interviews, through which several key themes emerged – points 2 through 4 were not surprising, given that participants were mainly Millennials:

1. All but a few described the firm as a ‘family,’ which they did not want to see changed.
2. Almost all staff requested greater transparency in decision-making, especially concerning goals, appraisal, reward, mentoring and career development.
3. Many mentioned ‘trust’ in the context of being more involved in decisions.
4. Staff generally recognised that, to remain relevant in the future, there was a need to innovate; collaborate (inside and outside the firm); and be more flexible in their thinking (working outside their technical specialisms), which would require a commitment to their own personal development.

Progressing, the research team co-developed project guidelines with ABCPA partners to support the objective of developing a high performance workplace, drawing upon, for example, various leadership, adult learning, complexity, knowledge management and organisational behaviour theories (e.g. Snowden 2007; Knowles et al., 2008; Pfeffer 1998):

- Create attractors (e.g. processes) that stimulate and optimise self-organisation.
- Stimulate swarming, leveraging a breadth and depth of expertise to anticipate, innovate and problem-solve through collaboration.
- Focus on alignment of people, as opposed to organising them, using the unique personality of the firm, its history and underlying values.

- Craft an environment where learning can be applied under pressure to develop new skills.
- Encourage new ideas and experimentation, quickly dampening failure and amplifying success.
- Disrupt existing norms without negatively impacting day-to-day operations.
- Provide a generalist experience for managing complexity that conveys an understanding of how to cope with change.
- Build trust through openness, commitment, accountability, empathy and a ‘safe to fail’ culture.
- Allow status to be awarded by others and not by title.

### Scaffolding change

The primary challenge was to swarm people around the change process. “One of the basic findings of applied behavioural science research is that people tend to feel committed to a decision activity in direct proportion to their participation in or influence on its planning and decision-making” (Knowles et al. 2008, p. 58). This was addressed through the formation of a ‘Frontier Team,’ comprised of twelve people, that included the Managing Partner and a balanced representation of staff that accounted for technical/managerial roles within the business (e.g. tax and audit), sex, and years of experience.

The team had a flat structure, with members taking turns to lead meetings. Members were given permission from the partner group to revisit the founding principles of the firm and develop systems and processes to create a high performance workplace that would remain relevant in a fast-changing environment, including the firm’s vision, mission, strategy, goals, HR policy and practice. The role of the Frontier Team was introduced to the rest of the firm via half-day workshops that set out the objectives for the change project. Each member of the team was expected to take on follower/ leadership roles as necessary, and all members were expected to lead an aspect of the project. Nobody had the authority to conscript people to support their tasks; any support had to be freely given and was reliant on the ability of the task leader to persuade others to support them.

The Frontier Team also codeveloped their own Terms of Reference, which was achieved in consultation with all ABCPA staff:

- Act as an advocate for the interests of all staff within the firm.
- Work to represent and uphold the values and standards of the firm.
- Shape a firm culture that embraces unity, integration and collaboration.
- Actively contribute to the development of firm strategy and operational policy, systems, processes and tools.
- Communicate with clarity the team's aims and objectives to the wider firm.
- Ensure that all opinions, both inside and outside the team, are heard and valued.
- Actively seek out opportunities to engage with all team members within the firm.
- Nurture trust in the Clarity Project through openness.
- Bring forward new ideas, encourage innovation and challenge the 'norm.'
- Foster a 'safe to fail' environment, where all team members feel that decisions can be taken in an environment where failure can be tolerated.
- Work to ensure that new ideas are introduced in such a way that failure can be tolerated.
- Champion continuous learning and development.
- Inspire and lead for the future (actions define you, not words).

The Frontier Team received situational and values-based leadership development; training in the use of tools for

internal/external environment analysis; methods for planning, monitoring and evaluating progress; critical thinking and decision-making development; and practical tools for time management and the hosting of efficient and effective meetings. This was complimented by the creation of a new decision making framework, designed by the lead author (Diagram 1), informed by decision science (e.g. Snowden, 2007), values-based leadership principles (e.g. O'Toole, 1996) and decision-making processes from the British Army (courtesy of a collaboration with Major Peter Francis).

The Clarity framework was conceived to assist distributed decision-making. All ABCPA staff were sponsored to take decisions by the partner group on the understanding that they could evidence their engagement with six decision gates:

1. **Purpose:** does the decision align with the vision, mission and goals of the firm? (Yes, safe to proceed. No, stop and seek guidance).
2. **Values:** does the decision align with our values?
3. **Standards:** does the decision align with our standards, including the code of professional conduct (is it legally compliant)?
4. **Credible:** is the decision based on credible evidence and how do you know?
5. **Coherent:** is the decision logical; does it feel like stepping across a stream or jumping the Grand Canyon?
6. **Risk balanced:** Have you considered risk? What are the short/long term consequences; have you tested your decision? Imagine you own a shop that sells apples. One day a customer asks for an orange. Would you stop selling apples and start selling oranges? Or would you experiment by stocking a limited number of oranges to gauge response and proceed based on feedback?

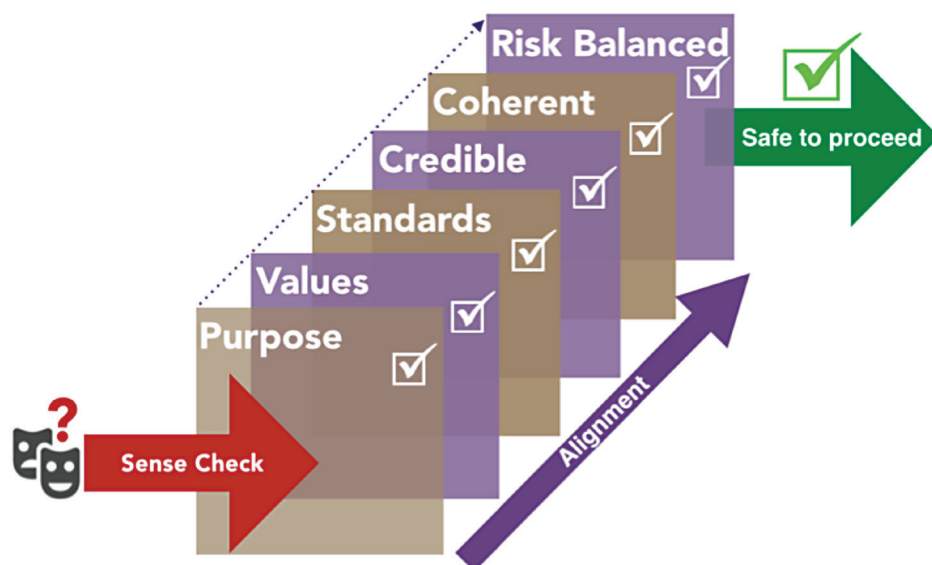


**Diagram 1:** The Clarity decision-making framework

This framework has been adopted as a 'Clarity Cube' that is visible on every desk and meeting space within ABCPA (Figure 1 overleaf).



**Figure 1:** The ABCPA Clarity Cube

## Establishing openness and trust

During an early Frontier Team meeting the research team sensed hesitancy from non-partner participants. It was as if change was happening on the surface, but staff were yet to be convinced that they were participating in meaningful change.

Within accounting firms one of the least transparent aspects of the business involves what it actually means to become a partner, in terms of financial commitment. A typical response from partner groups being, “it depends and we’ll talk to you about it when the time comes.” A young manager with five years’ experience, during a discussion on existing goals around revenue growth and the development of future partners, felt comfortable enough to challenge the ABCPA Managing Partner on what it actually meant to become a partner. The Managing Partner went to a whiteboard and, for the first time in front of staff, mapped out the financials for partnership, including illustrations of how this had been structured in the past.

At the end of our engagement many staff noted this to be the moment when they believed that they were participating in meaningful change. Upon reflection, it begs the question, what would have happened if the Managing Partner had not been brave enough to have such a transparent conversation? “The biggest idea driving this project all along was that the partners were trusting us with the firm... Nothing is requiring them to put the future of the firm in our hands... now, what can we do to leverage that to ensure the firm succeeds in the future?” (Frontier Team member, four years’ experience).

## The outcome

At the time of writing, the Frontier Team is coming to the end of its second year. After year 1, half of the members transitioned off the team, as a way to initiate a two year cycle of participation, where half of the members change on an annual basis; the Managing Partner being the only permanent member.

During year 1 the team identified commonly accepted values, built upon the traditions of the founding partners, which are visible in all the firm’s public and private meeting spaces.

They also clarified the firm’s values in the context of its mission:

“Our firm is a community where clients and staff feel understood and appreciated. We are growing our community by providing services that remain true to our core values and respond to evolving needs. This means: We act with *integrity*. Our *innovative spirit* is harnessed to continuously challenge the design, development, and delivery of excellent services. We strive to earn the *respect* of the communities we serve and our place as a trusted advisor. We ensure our team members apply *balance* in their lives to sustain our pursuit of *excellence*.”

The Frontier Team conducts ongoing environmental scanning and is responsible for the development of pathways to achieve the agreed strategy. The team continuously monitors and adjusts strategy and practice according to feedback, which includes revenue, employee development and client satisfaction indicators. It has also developed a new online employee guide that tells stories of the past and sets out human resource policy, procedure, career guidance and competency based development guidelines.

## Conclusion

The aim of this article was to introduce practical approaches to managing complexity and coping with the change brought about by such environments. We believe the methods to be transferable outside of the case organisation. This is strengthened where they have been deployed, in part or whole, within five other organisations in the United States and the United Kingdom. More importantly, evidence suggests these methods to be successful:

*“I appreciate the outcome... When you’re being pushed to the edge it can be frustrating. Then, looking back on it, seeing what you learned, it’s rewarding – we’ve become more efficient, from how we handle our meetings to how we make decisions”* (Frontier Team member, four years’ experience).

*“It’s helped me develop my leadership skills, my critical thinking skills.... it’s definitely affected me in my day-to-day work... where I don’t jump to quick decisions”* (Frontier Team member, five years’ experience).

*“What I’ve learnt through this process is a little humility. I don’t have all the answers and I need to listen to others. I think it’s fascinating to see, when you empower others and say that we want this input from you, what you get in return. It’s going to position us better. It’s going to make our firm stronger.”* (ABCPA Managing Partner).

Testing of these approaches continues, but, regardless, such practice is necessary if leaders and managers are to sustain the fitness of their organisations with a dynamic, fast changing landscape.

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## About the authors



### Dr David Griffiths

Learning Design Advisor at Swansea Business School; founder of University of Edinburgh start-up, K3-Cubed Ltd.

David Griffiths is a Learning Design Advisor at Swansea Business School and the founder of the University of Edinburgh consultancy start-up, K3-Cubed Ltd. David is passionate about organisational knowledge and learning, particularly how design-led approaches create value through enhanced problem-solving and decision-making capability. David's work won an Emerald Literati Network 'highly commended' Award for Excellence in 2012. In December 2011 he was recognised as one of four key worldwide influencers in the Knowledge Management field. In 2013 he was listed as one of the top 30 Knowledge Management influencers in the world ("Top 100 names to know in KM"). In 2014 his Knowledge Management and Organisational Learning project with the Indiana Certified Public Accountants Society (INCPAS) won a "best project" award at the Society of Association Executives annual awards. In 2014 he wrote a book on HR development for the United States accounting profession, which was recommended by the American Institute of Certified Public Accountants as a top read. In 2015 he was again named as one of the top 10 influencers in the field of Knowledge Management.

David holds a PhD in organisational knowledge and learning from the University of Edinburgh and is a Chartered Fellow with the Chartered Management Institute. He has worked with organisations around the world such as: e.on, Ubisoft, Quintiles Laboratories, BAe Systems, Abbot Vascular, Mars Inc., the English Institute of Sport, Bahrain Natural Gas and Scottish Water. He also sits on the Advisory Board for a US technology company.



### Dr Maggie Inman

Head of Swansea Business School, University of Wales Trinity Saint David

Maggie Inman is Head of Swansea Business School at the University of Wales Trinity Saint David. Her research focus is within the area of leadership and management development and has a particular interest in the use of life history as a methodology. She has extensive experience in qualitative research predominantly amongst middle level leaders in higher education and has published this work in a variety of peer reviewed journals such as the *International Journal of Leadership in Education*, *Journal of Educational Management Administration and Leadership* and *Professional Development in Education*.

Maggie has a Doctorate in Leadership from Birmingham University and an MSc in Human Resource Management. She is a Senior Fellow of the Higher Education Academy (HEA), a Senior Fellow of the Chartered Institute of Personnel and Development (CIPD) and is an active member of the CIPD South West Wales branch committee. She is an external examiner for the CIPD programmes at the University of Gloucester and on Doctoral theses in Leadership at the University of Birmingham. She is a Principal lecturer, delivering HRM and Leadership modules on the MBA and CIPD programmes as well as modules for the British Armed forces. Prior to her role in UWTSD she has worked in Human Resource Management roles within a variety of public and private organisations. She has co-authored a text on Human Resource Management and remains active in working with organisations to improve their Human Resource capability.

# ARTICLE 2

## Change: opportunity or threat?

**Viki Holton**, Research Fellow at Ashridge Business School.

**Fiona Dent**, Independent management trainer, executive coach and author.

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Change remains one of the most significant contemporary business challenges for organisations, leaders and managers. Recent research by Ashridge Business School in the UK that surveyed leaders in the private, public and higher education sectors indicated that implementing and managing change remains a major issue for all.

This is highlighted by survey findings that 51% of private sector responders agreed “change in my organisation is managed well”, falling to 45% in higher education and 39% in the public sector.

### Change as an opportunity

One of the insights from all of the survey evidence we have collected over the past seven years (from a total group of more than 5,000 managers) is that while a good deal of effort may go into the planning and design of change initiatives, relatively few people see change as an unalloyed good thing.

Although the senior team may plan a change process as an opportunity, it is much harder to convey this to staff, who are more likely to see planned changes as a threat. Even more worrying is the senior team overlooking the importance of keeping everyone aligned with change throughout the process.

The following is an example of what might happen:

#### Stage 1

The senior team expends considerable effort organising, planning and envisioning the change that will happen. This usually involves significant time, energy and resources but often behind closed doors at this initial stage.

**Note:** During this time the rest of the organisation will know that “something big” is happening and may catch a glimpse of the process but know very little else. This might be called “suspended animation” and is most unpleasant and frustrating for those not in the know.

#### Stage 2

The senior team may then involve the next level of managers in the process. At this stage time pressure to begin implementation may be considerable so further debate and discussion is often discouraged or dismissed as “we’ve covered this already”. As a result, middle managers often feel discouraged, disenfranchised and cynical – which then affects their ability to assist in the implementation process.

**Note:** “The top team are all excited about the change but the rest of us lower down in management have no clear idea of what might happen. They tend to forget we are not as committed to the ideas as we haven’t had time to consider and assimilate them.” This might be called a “forced partnership” where one group is less equal than the other.

#### Stage 3

It is now time to get the rest of the staff involved, which tends to include some or all of these techniques – workshops, town hall meetings and a flurry of communication (emails, posters, pop-up meetings).

**Note:** The problem here is that the senior team are fully committed to the process they have developed and expect others in the organisation to buy in and trust them. The next level of management may feel and show less engagement and the remainder of the staff are often confused and ambivalent as they feel they have not been involved in the process at all.

This story is one we hear a lot from people in organisations, often compounded by a variety of change programmes being introduced at the same time. One of the problems is that while senior people understand the theory of change models they seem to forget the practical implications and processes involved when it comes to implementation.

Two of the most popular theories about the process of change and the stages people go through when dealing with change are the Change Curve created by



# MANAGEMENT NEED TO BE HONEST, BELIEVE IN THE CHANGE AND LEAD FROM THE FRONT.

Swiss-American Elizabeth Kubler-Ross and The Four Rooms of Change model by Norwegian Claes Janssen. (Other influential change models by Kurt Lewin, Rosabeth Moss Kanter and John Kotter are included in the references below.)

The Change Curve is one of the most widely used models to illustrate the typical stages people experience in times of change. Kubler-Ross identifies seven such stages: shock, denial, frustration, depression, moving over time to acceptance, experiment and commitment.

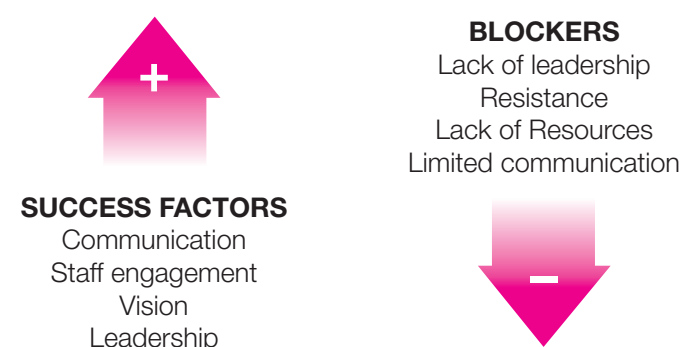
The Four Rooms of Change model, first set out in Janssen's book *Personal Dialectics* (1975), offers a psychological theory of individuals moving through four stages during any change process. These stages are: contentment, denial, confusion and renewal.

Both models focus heavily on the emotional and psychological elements of change and the need for processes to be developed to help people through these stages and on to commitment to the change.

Our experience indicates that organisations and leaders tend to focus on the practical and technical context rather than engaging with these emotional elements. This is just as likely to happen whether you work in the public, private or education sectors.

## Lessons for effective change implementation.

Our survey respondents indicated success factors and blockers for the implementation of change. None of these are startlingly new nor are they a surprise but they are worth highlighting as organisations and leaders continue to make the same mistakes repeatedly.



Here are some suggestions in relation to each of these success factors.

### Communication

People almost always cite communication as the main element missing when driving change. Senior management are frequently puzzled by this as they believe they are communicating via town hall meetings, emails and team briefings.

What they forget is that people receiving the message may be at different stages of the change process and their level of acceptance of the changes. There is no easy answer for successfully communicating through change but some of the best practices involve:

- Establishing change co-ordinators throughout the organisation. These people should be influential in their own right and should be selected from all levels and departments. Their role is to act as both catalysts and facilitators and they must be people who are trusted and respected by their colleagues.
- Regular updates from the top management – not just the odd email from the CEO but multimedia options – email, podcasts, town hall meetings, road shows, team briefings, two-way webinars where staff can be actively involved, ask questions and offer ideas.

### Staff engagement

This is all about consultation, clarity and communication. Consulting people early in the change process so that they have an opportunity to share their feelings, ask questions of decision makers and also contribute their ideas makes them feel involved, valued and engaged. Ultimately, time taken in the early stages means getting commitment to the change will make things easier in the long run. It is that well-known principle of going slower (in the beginning) to get more traction later.

### Vision

The top team must have the ability to convey in a compelling way the benefits and need for change. Here, focusing on the future and making sure that this is communicated in a way that clarifies the goal and the journey is vital. Passion and commitment are essential and the senior team must make sure that they have all fully bought into the goal. Any dissension will result in mixed messages being given to others.



TOO OFTEN LEADERS ARE NOT FULLY ENGAGED BECAUSE THEY HAVE OPTED OUT ONCE THE CHANGE PROCESS HAS BEGUN... LEADERS WHO WITHDRAW TOO EARLY DO SO AT THEIR PERIL.

One large retail organisation used posters to emphasise their vision for the future. This was a simple and graphic image to remind people of the final goal and stages – this type of symbolism keeps people focused on what is important.

Leadership

- "It is important to drive it top down – and set an example."*
- "Management need to be honest, believe in the change and lead from the front."*
- "When things go off track – and they will – the senior team need to take swift remedial action rather than dithering and letting things fester."*

These three quotes illustrate some of the issues with leaders and leadership teams and highlight the need for active, interactive and real involvement from the top people in any organisation. They must demonstrate the 3 Ps – **Patience**, **Passion** and **Persistence** – when leading their organisation through the change process.

Too often leaders are not fully engaged because they have opted out once the change process has begun. They need to remain totally involved and committed throughout the process. Leaders who withdraw too early do so at their peril.

In summary

Our survey indicated that most respondents (mainly middle and senior managers and business professionals) see managing change as an important element of their role. As the data below illustrates, the majority of respondents say that leading (or managing change) is part of a manager's role in their organisation. However, there is a less positive response when asked if leaders have the skills, or are trained, to lead change well.



We believe this sense of responsibility for change is important for commitment and success. But this is not sufficient. Managers must also have the skills and capabilities to help them through the process.

Some tips are:

- Make sure you bring your people with you.
- Use the survey evidence shown above to check out the change capabilities in an organisation.
- Communicate early in the process.
- Be clear about the vision, goals and purpose – these should be both rational and emotional.
- Clearly demonstrate your commitment to the change “tell the human story, a narrative, create a dream of what’s required and why it matters to people.”
- Remember, not all people will be at the same stage of the psychological journey through change so flexibility will be required.
- Always emphasise that change is all about business building and improvement. If you cannot clearly demonstrate the value of the change required then do not be surprised if staff seem to be only lukewarm.

We also believe that every organisation that embarks on change has the necessary skills, abilities and ideas available to them. What is needed is more patience, passion and persistence in order to allow these to develop. Most leaders (and business schools) understand the power of a top-level team to focus on driving change through at those early developmental stages.

But another dimension is useful. A similar top-level team keeping a close watch on key issues such as communication, engagement, conveying the vision and acting as role models would help ensure the message of change is about an opportunity rather than a threat. Surely, a good way forward and a practical way to help ensure success with change!

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# ARTICLE 3

## Learning to live with dragons: rekindling the quest to tame uncertainty

**Professor Darren Dalcher**, Professor of Project Management at the University of Hertfordshire.

Medieval maps offer a fascinating glimpse into the mindset of that era. Dangerous and unexplored territories at the edge of the known universe are often demarcated by strange and imposing land and sea animals, including lions, elephants, dragons, serpents and other wild beasts and monsters. The Hunt-Lenox Globe of c.1510, now housed in the New York Public Library, depicts the Latin phrase 'hic sunt dracones', translated as 'here be dragons', to capture the uncharted and unknown nature of such regions. The symbols betray the fear of the unexplored and the unknown, and the uncertain features that it may hold.

The apparent distrust of the unknown stems from human preoccupation with knowledge and perfection. The quest for knowledge has played a major part in the intellectual development and evolution of individuals, societies and cultures. Socrates viewed knowledge as a virtue, a path to perfection. Prometheus was punished for bringing knowledge to the world, and Faust for wanting it too much.

Yet, knowledge has continued to feature as a defining commodity and a measure of progress. Aristotle, reflecting the height of Greek philosophy observed that 'all men by nature desire knowledge', while Socrates proclaimed that the only good is knowledge and the only evil is ignorance.



## A life less certain?

According to the Oxford Dictionary, *certainty* implies conviction or perfect knowledge, free of doubt. The idea of attaining perfection without entertaining doubt is attractive. British-Canadian physicist F. David Peat asserts that early theorists believed that science delivered this promise of certainty: built on the foundation of fact and constructed with unbiased and trustworthy tools, science would ultimately produce objective and proven knowledge (Peat 2002).

Such a deterministic mode of thinking is predicated on the assumption that every effect has a discernable cause, thereby enabling prediction, determinism and observation, and – above all – a high degree of certainty. French novelist Victor Hugo ruminated about a time ushered in by science, which will feature an end to surprises, calamities, catastrophes, and also to disputes, illusions and parasitisms (Finkelkraut 2005). Indeed as recently as 1900, Lord Kelvin, the President of the Royal Society, claimed that everything that was to be known in science was already known. The combination of Newton's and Maxwell's theories were capable of explaining every phenomena, thereby laying the ground for a unity of knowledge. Science could thus herald the arrival of an era of certainty; the ultimate prize in humanity's continuing quest for knowledge.

Yet, despite this optimism, the grand amalgamation of ideas and knowledge would ultimately prove futile as economics, wars and advances in science – especially quantum physics, relativity and complexity – were to challenge the notion of perfect knowledge and the proposed benefits that it might bring. Indeed, British social theorist Professor Zygmunt Bauman describes society as moving from a solid state (where knowledge is fixed and available) to a constantly shifting liquid modernity. Liquid life cannot stay on course for long, as it is lived under conditions of constant uncertainty, with an ever-increasing fear of being left behind (Bauman 2005). Devoid of certainties, liquid society struggles to keep its shape, confronting individuals with a series of challenges never before encountered (Bauman 2007).

The business world is increasingly confronted by the realities of such liquidity, with Charles Handy heralding the arrival of a changing world of organisations that extends beyond certainty (Handy 1995). Indeed, a 2010 survey of 1,541 CEOs conducted by IBM reveals that the key challenge facing global organisations is addressing complexity. The CEOs identify a world that is volatile, complex and increasingly uncertain, with 79% anticipating an upsurge in these features (Berman 2010). The majority of respondents have serious doubts about the ability of their organisations to manage in such a future but would seek to build such capability. Intriguingly, the US Military has coined the acronym VUCA to account for the increasingly encountered features of volatility, uncertainty, complexity and ambiguity in its operating environment, which render traditional management approaches and past knowledge less useful in preparing for and addressing future challenges.

## The problem with uncertainty

Knowledge and familiarity remain key to characterising and mapping the world around us. The certain world, where repetition offers a strategy for addressing similar problems using well-understood tools in well-understood contexts, resides in the bottom left quadrant of Figure 1. Former French President Charles de Gaulle noted that greatness was a road leading towards the unknown. Modern organisations increasingly find themselves operating in the new world of the top right quadrant, which is replete with uncertainty, where knowledge is scarce, and unfamiliarity breeds fear of the unknown.

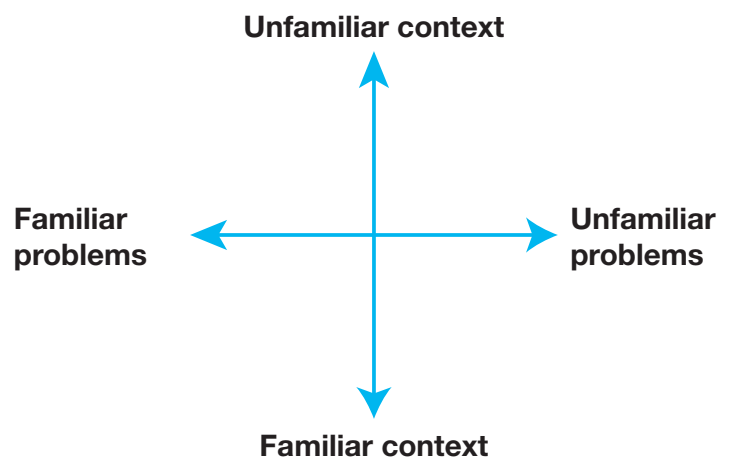


Figure 1 The world of action, adapted from Stephenson (1994)

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Uncertainty can be viewed as novel situations where perfect knowledge of the past offers little or no value to support decision-making in the future. People generally remain uncomfortable with uncertainty and most would therefore prefer (known) risk to uncertainty.

For a simple demonstration consider the following situation:

**You have in front of you two urns, labelled Urn I and Urn II:**

**Urn I has 100 red and black balls, but you do not know in what proportion.**

**Urn II contains exactly 50 red balls and 50 black balls.**

**I will now offer you three betting situations:**

- 1. Without looking I will extract exactly one ball from each urn. Would you prefer to bet \$100 on getting a red ball in BOTH urns, or on getting a black ball in BOTH urns?**
- 2. This time you are allowed to take out just one ball (without looking) from either urn. Would you rather bet \$50 on finding a red ball in Urn I or finding a red ball in Urn II?**
- 3. Once again, you are allowed to take out one ball (without looking) from either urn. Would you prefer to bet \$50 on getting a black ball in Urn I or a black ball in Urn II?**

### The Ellsberg Paradox

The experiment has been conducted with tens of thousands of subjects. It is known as the Ellsberg paradox (Ellsberg 1961). The results are almost always the same. Most subjects are indifferent between betting \$100 on either red OR black balls in BOTH urns. This is hardly surprising, as there appears to be an equal chance of winning in either case.

Yet, most people prefer betting \$50 on red in Urn II over betting on red in Urn I. They also prefer betting \$50 on black in Urn II over black in Urn I. The typical rationale that is given by subjects is that the precise proportions of red and black balls in Urn II are known and therefore this is a 'less risky' bet. The results suggest that people prefer situations of risk (where the proportions of balls of two different colours were determined at fifty-fifty) to those of true uncertainty (where the balls were taken out of a random mixture – thus implying a probability of a fifty-fifty mix). When betting on a particular colour, most respondents chose the determined proportion for each colour suggesting that the probability of either colour is greater than fifty percent (whilst also showing no difference between the colours when asked to bet for one colour in both piles).

This pattern of preference is inconsistent with rational decision-making. The implication of what has been termed the Ellsberg Paradox is that decision makers are more comfortable with risk than they are with uncertainty. Interestingly, the amount of money on offer (i.e. the prize on offer) does not alter the choice preference of participants so that the same results are obtained when the gamble offered is for \$50 and for \$500,000. Nor does the level of

knowledge and expertise in decision-making appear to change the preferences of subjects, with experts making similar choices to novices.

Other experiments reveal that decision-makers will defer major decisions in the face of uncertainty. This applies even when the decisions are not directly linked, showing that uncertainty in one area can impact our performance in other areas. For example, when offered a special holiday package at a greatly reduced price, most students deferred their choice and elected to pay a non-refundable deposit until they found out if they passed their final year exam. Other groups were told their final result and the majority of those who passed and also of those who failed elected to buy the very same offer (presumably either as a treat or to feel better). I have tried experimenting with similar configurations with professionals who were waiting to hear the outcomes of a major decision regarding project funding or a promotion with almost identical results. The majority of those awaiting for results elected to defer and pay a deposit, while the majority of those who were given their result, almost regardless of the outcome, elected to make the same positive decision.

### Making sense of uncertainty

*"We cope with uncertainty irrationally by ignoring it or by worrying", Detlof Von Winterfeldt*

The Ellsberg paradox and the further examples explored above underscore our inability to handle uncertainty. Most of us are uncomfortable in the presence of uncertainty and would prefer some partial knowledge to total ignorance regarding a given situation. As a result, the opportunities that are embedded in uncertain situations may often be sacrificed in an effort to opt for risk as opposed to uncertainty (additional potential benefits may also be lost in a further effort to reduce the level of risk).

The existence of uncertainty and ambiguity is often viewed with discomfort. Uncertainty appears to act as a deterrent and determines where and how we engage with situations. Social scientists Mary Douglas and Aaron Wildavsky noted that uncertainty prevents or inhibits risk taking (Douglas and Wildavsky 1982). Indeed, risk managers and project leaders often do not manage risks; but instead simply try to avoid uncertainties and ambiguities.

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THINKING BACKWARDS CAN FOCUS ON A POSITIVE OUTCOME. INSTEAD OF TRYING TO PREDICT WHAT WILL HAPPEN, MANAGERS CAN INSTEAD CONSIDER WHAT THEY WOULD LIKE TO HAPPEN.

Given the concerns expressed by CEOs about their ability to operate in the top right quadrant, how do we begin to organise our management and leadership actions to successfully deliver in an uncertain world? Moreover, given that exploring the unknown requires tolerating uncertainty, how do we develop these new capabilities, and even learn to embrace and explore such scenarios?

Lessons from the analysis of thousands of planning and execution failures over the last decade indicate that in common with our medieval ancestors, individuals and organisations struggle to accommodate uncertainty. As seen in the choice of holiday example, the fear of the unknown and the lack of knowledge can have crippling effects that combine to stall decision-making and arrest progress. Learning to perform in the top right quadrant requires the development of new learning and adaptation skills for taming and handling uncertainty.

Looking forwards, thinking backwards

Danish physicist Niels Bohr opined that “prediction is difficult, especially if it is about the future”. Indeed, the holiday

insurance scenario discussed above suggests that small decisions with smaller commitments are more acceptable. Methods for reasoning and addressing the unknown therefore need to avoid making debilitating jumps that prevent decision makers from confronting a situation, and instead need to rely on thinking backwards through a progressive and logical elaboration that takes place gradually without requiring any major leaps. This can be done by focusing on the positive aspects, the negative ones, or even better, on both.

Thinking tool 1: Thinking positive – visual leaps

Thinking backwards can focus on a positive outcome, or the overall desired state. Instead of trying to predict what will happen, managers can instead consider what they would like to happen (see Figure 2). This means visualising a potential outcome and determining what circumstances and aspects are required to achieve that desired outcome (Cleden 2009). Working backwards one small leap at a time, it becomes possible to imagine the state that will lead to this outcome, and reverse from that state to a previous condition and so on until we arrive at a starting condition not too far from the current reality.

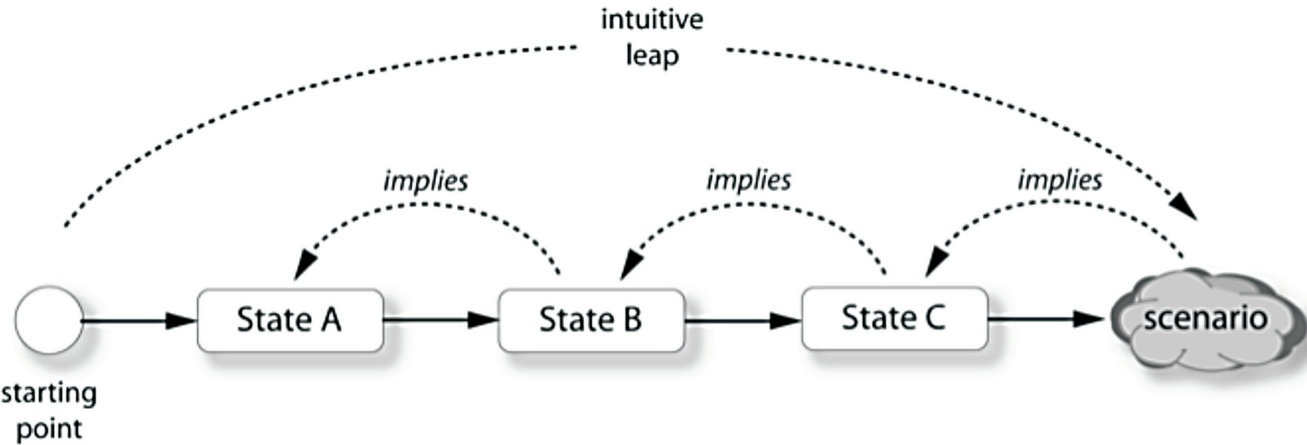


Figure 2 Making a leap to visualise a future scenario (after Cleden, 2009)

Ultimately, thinking backwards entices the development of a progressive understanding. The method allows the gradual identification of the logical sequence of predecessors leading to a desired outcome without committing to a complete leap. The focus on the critical predecessors required to arrive at the final outcome, and the progressive backwards elaboration can be used to uncover the critical success factors that are needed at each stage.

The power of this approach is in sidestepping the need for big leap thinking. Thinking backwards from a success can uncover the required development path and identify the minimum sequence of factors and conditions needed to deliver a successful outcome without getting bogged down in the unknown or the uncertain. Focusing on small and implementable positive futures, which are understood backwards, reduces the complexity and uncertainty of the development, whilst identifying the more critical core components that need to be in place to enact the desired vision.

### Thinking tool 2: Thinking negative – pre-mortem

Another useful approach for diffusing uncertainty focuses on the opposite of a post-mortem, the hypothetical pre-mortem. The approach utilises the idea of a pre-mortem, a theoretical investigation to identify the causes that contributed to a failure, before one has taken place (Klein 2007). Pre-mortem can be utilised at the outset of any initiative, project or plan.

Participants are instructed to imagine that the prospective initiative had failed spectacularly and are asked to generate plausible reasons and causes that contributed to that failure. They record the most likely reasons independently, before sharing them one at the time, by going around the table in a round robin fashion. The session concludes by reviewing the key reasons and using them to strengthen the plan for the initiative (see Figure 3). Adding external experts to the process may help to build up a wider repertoire of expectations and patterns.

## Reflection

It is often observed that life is lived forwards but understood backwards. Thinking backwards with the benefit of hindsight allows managers and leaders to engage with a situation or an undertaking without falling prey to the potential uncertainty and without getting blocked by the various unknowns. The methods described in this article encourage participants to identify critical success factors and critical blocks, respectively, that would otherwise be ignored and to anchor their knowledge and actions around the identified milestones and insights.

Hindsight provides a useful mechanism for making sense, especially when combined with the power of storytelling and storymaking. Research by Mitchell, Russo and Pennington established that prospective hindsight – imagining that an event has already happened (Mitchell, Russo and Pennington 1989) – increases the ability to correctly identify reasons for future outcomes by 30%. The two methods highlighted in this article apply prospective hindsight as part of a progressive sensemaking and insight gathering process that establishes critical parameters and fills in some of the details needed to operate in distant and less well understood regions of the map.

Uncertainty appears to be a permanent companion. Looking for answers in an uncertain world requires a different sort of questions, methods, and expectations. The approaches that work under conditions of certainty would need to be replaced by ones fit for the new world (Dalcher 2014). Ultimately, succeeding in taming the dragons depends on developing a new mindset open to making sense of the problems, contexts and methods that can be applied.

There are no magic bullets for slaying the dragons. Indian philosopher Jiddu Krishnamurti observed that “One is never afraid of the unknown: one is afraid of the known coming to an end”. That sentiment seems to reflect the fear of the medieval mapmakers. Learning to live with the beasts of uncertainty would require the humility and sensitivity to accept the boundaries and the good sense to resort to new ways of thinking and coping with the unknown.



**Figure 3** Thinking back from presumed failure: the pre-mortem process

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## About the author



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Professor Darren Dalcher is Founder and Director of the National Centre for Project Management. His main research interests focus on deriving forensic lessons from failures and developing new ways of measuring organisational excellence and project performance. He has edited over 30 books and authored over 200 peer-reviewed papers.

Darren is editor-in-chief of the *Journal of Software: Evolution and Process* and edits two book series focused on advances in project and change management and organisational systems. He is active in numerous international committees, standards bodies, steering groups, and editorial boards. He is heavily involved in organising international conferences, and has delivered numerous international keynote addresses and tutorials.

He has built a reputation as leader and innovator in the area of practice-based education and reflection in project management and has worked with many major industrial, commercial and charitable organisations and government bodies. He was named by the Association for Project Management as one of the top 10 influential experts in project management and has also been voted Project Magazine's Academic of the Year for his contribution in 'integrating and weaving academic work with practice'. In 2011 he was awarded a prestigious lifetime Honorary Fellowship from the Association for Project Management for outstanding contribution to advancing the profession. He holds visiting professorships with a number of universities, including the University of Iceland, Drexel University and SKEMA Business School.

# ARTICLE 4

## Accounting that counts: management accountancy in an age of anxiety

Dr Jules Goddard, Fellow, London Business School

Philip Whiteley, author, journalist and speaker on business management

If one wishes to know the true purpose, focus and culture of an organisation but were allowed to know only one item of information about it, you would almost certainly want to know its choice of performance metrics.

Accountants have a particular responsibility for determining what gets measured – and why. A set of accounts stands in relation to the performance of a business as a map relates to the territory. A map is not literally truthful, but its structure is sufficiently analogous to the territory to serve the purpose at hand; so a set of accounts is inevitably a trade-off between accuracy and usability. It is helpful to recall Bonini's paradox: 'Everything simple is false; everything which is complex is unusable'.

### A bias against clarity

Plotting a path between simplicity and complexity – or between usability and truth – lends itself to various biases. One of the biases to which accountancy is particularly prone is counting what is countable rather than what counts.

During the Vietnam War, the US Government measured military success almost solely in terms of enemy losses. Robert MacNamara, the then US Secretary of Defence, later gave as the principal reason for defeat an undue reliance upon what was **measurable** rather than what **mattered**. The MacNamara Fallacy (or the Quantitative Fallacy), was eloquently described by Daniel Yankelovich:

1. "The first step is to measure whatever can be easily measured. *This is OK as far as it goes.*"
2. The second step is to disregard that which can't be easily measured or to give it an arbitrary quantitative value. *This is artificial and misleading.*
3. The third step is to presume that what can't be measured easily really isn't important. *This is blindness.*
4. The fourth step is to say that what can't be easily measured really doesn't exist. *This is suicide.*"

(Yankelovich, 1972)

Accounting departments in UK firms will differ in the extent to which they exhibit these biases, but it would be a rare firm that does not fall foul of at least some of them.

A closely related bias is the inductive fallacy, the belief that the basic method of science is objective observation followed by data reduction and pattern recognition. Karl Pearson, the 19th century mathematician and biometrician, claimed:

"Let us be quite sure that whenever we come across a conclusion in a scientific work which does not flow from the classification of facts, then we are dealing with bad science" (Pearson, 1892).

In a riposte, Peter Medawar, the Nobel Prize-winning biologist remarked:

"Poor Pearson. His punishment was to have practiced what he preached, and his general theory of heredity, of genuinely inductive origin, was in principle quite erroneous" (Medawar, 1963).

In business, accountants frequently default to gathering and classifying data rather than constructing and testing theories. As managers, we prefer evidence that is based on incontrovertible data; we therefore prefer data that take the form of quantitative measures; and instinctively and loyally, our accounting department obliges.

To the extent that our strategies are circumscribed by what is objectively measurable, we are limiting ourselves to an unnecessarily small, and unimaginative, range of options. This is not really strategy at all. The more narrowly we define the boundaries of rational behaviour – and the more fearful we are of making even the meekest unprovable assertion – the more banal the resulting decisions are likely to be. If we equate rationality with inductive reasoning, we will always come to conclusions of no greater scope than the data to hand.

A close cousin of inductive reasoning is a disproportionate emphasis on precision. Herman Bondi, the eminent mathematician, distinguished between precision and clarity in science and discussed why clarity is much the greater virtue. As an example, he suggested that measuring the difference between the equatorial and polar circumferences of our planet was a case of *precision*, whereas the discovery that Earth is spherical was a breakthrough discovery of remarkable *clarity*.

Paying more attention to costs than to revenues is the equivalent bias in business. Tim Ambler, a former Finance Director of IDV and Professor of Marketing at London Business School, famously discovered that,

“On average, boards of directors devote nine times more attention to spending and counting cash flow than to wondering where it comes from and how it could be increased” (Ambler, 2003).

Subtracting costs from revenues to compute a profit may be faultless arithmetic but it does little to explain which costs are creating which revenues. As behavioural economists like to point out: ‘Data is exhaust, not fuel.’

The definition that accountants give to ‘the bottom line’ is highly contestable. In practice, the correlation coefficient between the bottom line and performance – that is, increased market value over time – is notoriously low. The principal measures of profitability, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) and EPS (Earnings Per Share), are weak predictors of long-run economic performance.

## Benchmarking against potential

What counts as good performance? Four categories of benchmark suggest themselves: 1) performance relative to the past, 2) performance relative to plan, 3) performance relative to competitors, and 4) performance relative to potential (or purpose).

Accountants tend to work more comfortably with the first pair than the second pair, owing to the bias towards precision. This is the domain of budgeting, where a good performance is interpreted as one that ‘makes the numbers’. Both these bases of comparison – the past and the plan – are internally focused. For example, the firm may well be improving on its past performance, but not at the pace of its competitors; it may be delivering on its plans, but only because they lack ambition.

The second pair of benchmarks – the competition and the potential – is far more relevant, but also more challenging. The data are softer and more subjective. The domain is strategic. This is where the right balance between truth and usability is particularly difficult to strike. Added to this, the professional status of accountants – and the standards with which they are expected to comply – tend to be friendlier to what is objectively true than to what is subjectively insightful or strategically significant.

The traditional proximity of accounting to the finance function has meant that accountants have invariably felt more at home in the budgeting domain than the strategic domain. Yet the modelling skills of accountants are too precious not to be made more available to the strategic management of the enterprise.

Three shifts in the world of business are putting pressure on the accounting profession to acknowledge its biases, and to reform practice. The first shift has growing evidence supporting new theories of human choice behaviour, creating the discipline of behavioural economics. The second shift results from competitive pressures in the global economy which emphasise the primacy of an outward-facing and longer-term perspective on performance. The third shift has to do with scandal, and the loss of public trust in corporations.

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### The science of behaviour

"We think, each of us, that we're much more rational than we are. And we think that we make our decisions because we have good reasons to make them, even when it's the other way around. We believe in the reasons, because we've already made the decision" (Daniel Kahneman).

The 'rational man' of neo-classical economics, whilst obsolete in theory, is still very much alive in managerial thought and practice. Accounting practices trundle along as though the behavioural revolution in economics never occurred.

Other managerial functions are beginning to reform. Finance, for example, has had to come to terms with the demise of the efficient market hypothesis and to invent new ways of assessing risk. HR is exploring the implications of choice architecture, defined by Richard Thaler as the "careful design of the environments in which people make choices". Marketing increasingly understands the maxim that "we think much less than we think we think" and that emotion guides decisions. Brainjuicer, the marketing consultancy that has built its practice around Daniel Kahneman's discoveries, expresses its philosophy as follows:

"You might believe our brains are split:  
A thinking... and a feeling bit  
With power shared between the two  
The problem is, that just ain't true  
The systems don't have equal voices  
The FAST one – FEELING – makes most choices  
Don't try and reason with the rider  
The elephant's the real decider"

(Ewing, Wood & Kearon, 2015)

If accounting is to exert a more constructive influence on performance, then it needs to embrace the findings of behavioural science.

### Strategy in an uncertain world

Adrian Slywotzky, the strategy consultant, has documented the extent of what he calls the "growth crisis" in the corporate world. Only a handful of large companies have been able to achieve double-digit revenue growth consistently. Furthermore, those that did so adopted short-term measures, such as acquisitions, mergers, and price increases in line with inflation.

In business schools, most executive education programmes now support Slywotzky's thesis: a volatile-uncertain-complex-ambiguous (VUCA) world, disruptive change, newly emergent competition, tightening margins – and the requisite need for greater agility, innovation, resilience, and courage.

Perhaps the most serious critique of modern accounting is that it has been so thoroughly professionalised (and commoditised) that it plays no part in the firm's competitive mix. Accountants choose not to put their skills to use differentiating their own firm from its competitors by differentiating their own choice of metrics and performance criteria. They become recorders of the competitive battle and not participants in it.

### Learning from scandal

It has been a painful decade for business. Criminal behaviour, financial wrong-doing, corporate malfeasance, insider-dealing, market-fixing, Ponzi schemes, and the associated massive destruction of value, have had a measurable and deleterious effect on the reputation of big business.

The failure of accountants – and their close cousins, the auditors, the credit rating agencies, the analysts and the regulators – to prevent these events demands attention. Years of bottom line 'growth' at Lehman Brothers masked colossal risk-taking that could only be understood by analysing behavioural patterns, and recognising the Illusion of Control and Over-Confidence Bias of key players.

If accountancy is to rise to these three challenges, there are two vectors of change that have the potential to create value.

### Behavioural Accounting

Neo-classical economists chose to define rational behaviour in a simplified manner: the working model assumed unbounded optimality (perfect information and infinite computing power), unbounded willpower (complete self-control), unbounded self-interest (pure individualism), unbounded transparency (impeccable mind-reading), and unbounded objectivity (freedom from sentiment).

To this day, many management processes – setting objectives, drawing up plans, controlling performance, assessing talent – are deeply imbued with this 'rationalistic' philosophy, which the science of behavioural economics now demonstrates is seriously flawed. As Daniel Kahneman expressed it, "Economists think about what people ought to do; psychologists watch what they actually do."

As a species, as Jonathan Haidt has demonstrated, we are groupish rather than selfish; we have a high need for social approval. We also overestimate the wisdom, virtue and knowledge of those we know (in-group bias); we jump on bandwagons and judge things by their popularity, fame or notoriety rather than their strict utility (called ‘social proof’); we perceive selectively, as when we place greater weight on data that corroborate our theories and ideology (confirmation bias); we pay more attention to bad news than good (negativity bias); we dream vaguely but dread precisely (loss aversion); we exaggerate our own normality (projection bias); and, when making decisions, we choose between too small a set of options (the anchoring effect); we see patterns where there may be none (the gambler’s fallacy); and we expend energy post-rationalising our choices and our behaviour.

These cognitive biases can sometimes lead to productive behaviour, but far more often they lead to misperception, misjudgement, misinterpretation, and unexpected or harmful outcomes. There is an opportunity for accountancy here: by acting as the intellectual conscience of the business and the guardian of rational inferential reasoning, accountants are in the perfect position to identify bias, draw it to people’s attention, debate and challenge it, and thereby come to more rational decisions.

Strategic Accounting

For accounting to become an integral part of the strategic debate, and to act as a business partner, it needs to move away from its internal bias and develop a more outward-facing, market-centred perspective. For a management team to feel in strategic control, it needs to know, ‘How are we doing relative to our competitors? Are we pulling ahead or falling behind? What factors can we point to as causes of our relative competitive position, as well as any changes in this position?’

Only one firm in any given market can be winning at any one time. By definition, most firms are pursuing losing strategies. Yet it is a rare set of accounts that captures this. Few financial statements plot competitive position, with the result that accounting cannot truly be said to be a strategic function. Unless we understand our performance we cannot claim to be managing it, we are merely describing it. Kenneth Simmonds, Professor of Marketing at London Business School, advocates a radical change. He calls his approach, ‘strategic value accounting’, in which the object is to apply basic accountancy skills to the assessment and enhancement of competitive position.

Firms may build competitive advantage in one of three markets: capital, talent and customers. For example, finance may be seeking to reduce the cost of capital in pioneering ways, whilst HR seeks to identify and retain talent, and marketing is focusing on opportunities in the digital space.

So it may be a mistake to locate the accounting department in the finance function. The skills of accountants can serve as a strategic resource for marketing and HR as well as for finance. Most firms are more likely to find sources of sustainable economic advantage in the markets for customers and talent than in the market for funds.

Explanatory Accounting

By integrating these two vectors – the behavioural and the strategic – management accounting gives itself the opportunity to create explanatory models of corporate performance.

|                | Economic Theory                                             | Psychological Theory                                     |
|----------------|-------------------------------------------------------------|----------------------------------------------------------|
| External Focus | Strategic Accounting (accounting for competitive advantage) | Explanatory Accounting (counting what counts)            |
| Internal Focus | Formulaic Accounting (counting what is countable)           | Behavioural Accounting (accounting for choice behaviour) |

In his book, *Seven strategy questions*, Professor Robert Simons of Harvard Business School argues that asking the right questions is the critical skill of the strategist. These are the questions that serve to focus the attention of the management team on the critical issues, to catalyse smart choices, and to ward off the many sources of distraction that get in the way. This is his list of key questions:

- a. Who is your primary customer?
- b. How do your core values prioritise shareholders, employees, and customers?
- c. What critical performance variables are you tracking?
- d. What strategic boundaries have you set?
- e. How are you generating creative tension?
- f. How committed are your employees to helping each other?
- g. What strategic uncertainties keep you awake at night?

(Simons, 2010)

If these are the questions to which explanatory accounting seeks solutions, then a second set of questions needs to be posed:

Do your management accounts address these questions? Do they measure the firm’s current and potential performance on these criteria? In sum, do they contribute to the calibre of the answers given to them, and thereby to the strategic performance of the enterprise?

“UNLESS WE UNDERSTAND OUR PERFORMANCE WE CANNOT CLAIM TO BE MANAGING IT, WE ARE MERELY DESCRIBING IT.”

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Dr Jules Goddard is a Fellow of the Centre for Management Development at London Business School, and a Member of the Academic Committee of CEDEP at INSEAD. He was formerly Gresham Professor of Commerce and Mercers School Memorial Professor at the City University and Visiting Professor of Marketing at the École Nationale des Ponts et Chaussées in Paris. He has consulted with many organisations around the globe, including Microsoft, J Walter Thompson, Orange, Mars, Danone, Aon Benfield, the BBC, Rolls-Royce, Freshfields Bruckhaus Deringer, PwC, Ubisoft, Conran Design Group, Hoffmann-La Roche, SAP and LVMH. He is co-author of “Uncommon Sense, Common Nonsense”, Profile Books, 2013



### Philip Whiteley

Author, journalist and speaker on business management

Philip Whiteley is an experienced author, journalist and speaker on business management. His work focuses on initiatives to renew the business model towards an approach based on a behavioural understanding. He argues that attempts to incorporate findings on cognitive psychology into business theory are stymied because of a cultural preference for mechanistic metaphors such as human resources and structures. He is the author of eight books. In *New Normal, Radical Shift*, (Gower Publishing 2013) he and co-author Neela Bettridge articulate a critique of conventional economic and business theory, and set out an enlightened alternative. Uniquely, the authors draw attention to the similarities between right- and left-wing thinking, challenging the shared belief that low wages increase profit margins. The conclusions therefore hold significant potential for improving policy-making as well as business management. He is co-author, with Dr Jules Goddard and Professor Vlatka Hlupic, of the article “Do we need to scrap leadership, or reinvent it?” published by the London Business School Review, Autumn 2015. Philip is a former columnist at *The Times*, where his weekly Packages feature on executive pay ran from 2000-2004. Other publications for which he has contributed include *Personnel Today*, *Director*, *Coaching at Work*, *Payroll World* and *Employee Benefits*. He is an Associate at the sustainability consultancy Article 13, a member of the Society of Authors, and a Subject Matter Expert for the Chartered Management Institute.

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# ARTICLE 5

## International and China business negotiations strategies

**Eurling Henry K. H. Wang**, International Adviser, Senior Executive and author and University College London Enterprise External Advisory Board member.

### Business negotiations models and processes analysis

International business negotiations are changing fast with increasing complexities. Analysis of high level negotiation business cases showed that they are evolving from the traditional 'win-loss distributive' model to the more modern, complex 'win-win integrative' model of negotiations. These are more in line with the modern complex international and China business environments. In the older 'win-loss distributive negotiations', the negotiators will argue hard against each other over the distribution of benefits in their agreements.

A gain by one party is then a loss to the opposite party. It is often not possible to make trade-offs on the basis of differing preferences as there is only one major issue at stake, i.e. profit and loss, which neither party like to give up easily. Hence the negotiation is often restricted and there is little room for expanding the scope of the negotiation to include other important issues. In general the agreements reached under this older 'win-loss distributive negotiation model' are normally unsustainable in the modern business world. In the modern 'win-win integrative negotiation model', both negotiation parties will try to negotiate and combine their interests into a joint agreement which will maximize mutual benefits for both parties. The common objective will be to create maximum value for both parties. This is normally achieved during negotiations by both parties making some important strategic trade-offs on different key issues. The trade-offs are normally made based on the overall holistic benefits. Both sides will normally try to achieve their most valuable business objectives whilst being prepared to compromise on the less important issues.

Modern business negotiation cases analysis also showed the negotiation processes are moving from a simple step by step negotiation process to complex, 'multi-phased and multi-parties negotiations'. These changes are in line with the complex global and Chinese business environments. In the

older simple negotiation process, a 'linear negotiation process' of preparation, negotiation, and final agreement is normally used. This process is really only applicable to very simple business issues. As businesses are becoming more complex globally, modern 'non-linear multi-phase negotiation processes' have to be adopted. Parties will normally start their first round of negotiations after extensive preparations. Negotiations of many related issues are likely to take place including trading of new concessions and new demands. After each complex negotiation round, both parties will normally need time to evaluate the evolving situation and seek new mandates. It is important to integrate the learnings from each negotiation round into the new negotiation strategy for the next negotiation rounds. These negotiations will normally continue until both parties have discussed and reach agreement on all the key issues.

Analysis of China business negotiations showed that their negotiation models are evolving in line with international negotiations. The traditional 'win-loss distributive' models are being replaced by the modern 'win-win integrative' model as China adopts more international business practices. The majority of business negotiation processes in China are also evolving, in line with international negotiations, from a linear negotiation process to the more complex multi-issue non-linear negotiation process.

There are normally many complex issues which the parties will need to negotiate and it is important to identify what are the critical 'win-win cooperative issues' which they can agree and share values during negotiations. Many China negotiations may also involve 'multi-negotiation parties'. These could include local government or leading local companies, who may become minority shareholders in the joint venture. During negotiations, new strategic alliances could also build up between the different Chinese parties. Hence the foreign negotiators have to be vigilant as new coalitions are normally powerful and may seriously influence the negotiation directions.

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FOREIGN COMPANIES ARE FINDING THAT THE CHINESE NEGOTIATORS ARE VERY KNOWLEDGEABLE ABOUT THE FOREIGN COMPANY AS THEY HAVE UNDERTAKEN DETAILED COMPETITOR ANALYSIS.

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### **Business negotiations preparations and planning analysis**

Negotiation business case analysis showed that successful negotiations will normally start with the careful selection of the negotiation team who will then undertake extensive preparations prior to the actual negotiations. Analysis of China negotiation teams showed that they will normally appoint their negotiation team carefully with members covering different corporate and business functions. The Chinese chief negotiators are normally appointed by top management and given an official letter of appointment with appropriate authorities. The Chinese negotiators are normally experienced and have undertaken negotiation training in the company or with relevant government departments. They will, like international negotiators, undertake extensive negotiation preparations before starting negotiations with foreign parties. They will normally develop detailed negotiation strategies and obtain the appropriate negotiation mandates from their corporate sponsors plus relevant government agencies

Foreign companies are finding that the Chinese negotiators are very knowledgeable about the foreign company as they have undertaken detailed competitor analysis. This will include systematic competitor analysis together with detailed strength and weakness analysis. These will also help the negotiators to better identify potential areas of conflicts and compromises. These can help to create more win-win solutions between the two sides which will build up trust and guanxi during negotiations. In addition, the Chinese negotiation team will also review other contracts that the foreign company have signed in China to help their preparations. All Sino-foreign contracts generally have to be submitted to the relevant Chinese government ministries for final approval after agreement between the parties. This provides an extensive contract database that the Chinese negotiators can access. To meet the requirements of the various corporate and government stakeholders, the China negotiation team will normally prepare confidential reports

detailing their negotiation strategy and planning plus highlighting what they want to achieve out of the negotiations. They will then discuss these with their senior management plus relevant government stakeholders so as to agree relevant negotiation mandates. They will also consider different potential ‘negotiation scenarios’, including what are the possible arguments from the international party. These will help them develop their counter arguments to achieve the desired negotiation outcomes. One important analysis for both sides is to analyze and determine the ‘relative negotiating power’ of the other party. This will include detailed scenario analysis on what would happen if no agreement is reachable and how far the parties may be prepared to move to reach a joint agreement or risk taking the non-settlement risks. These scenarios can help the negotiators to better understand what alternatives the other side may have and their relative bargaining power. This in turn will help to develop better, appropriate negotiation strategies and counter-arguments.

Taking the above negotiation business case analysis into consideration, it will be important for the international negotiation team to prepare well and agree realistic negotiation schedules and mandates with their management in advance of their negotiations in China. Realistic negotiation bottom lines should be agreed with management so as to avoid unrealistically high expectations on negotiation outcomes. In particular, negotiations in China can take a long time with unforeseen outcomes. They should also try to identify areas of possible compromise so as to create ‘win-win alternatives’. Then the negotiators can decide how best to use these during the negotiations so as to create good guanxi and improve the negotiation outcomes. It is also important for the team to find time to rehearse and practice their negotiations prior to actual negotiations in China. Clear roles and responsibilities should be assigned to each member of the negotiation team so that they know what they need to do during the intensive negotiations. They will also require backup and support from their corporate head office during their negotiations in China.

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TO START SUCCESSFUL NEGOTIATIONS IN CHINA, IT IS IMPORTANT TO START PLANNING OF THE NEGOTIATION VENUE AND LOGISTICS BEFORE THE ACTUAL START OF NEGOTIATIONS.

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### China business negotiation case studies highlights and learnings

High level business negotiations cases in China have been analysed to identify potential key megatrends and learnings. To start successful negotiations in China, it is important to start planning of the negotiation venue and logistics before the actual start of negotiations. These include where the negotiation meetings should be held in China plus who should attend. The negotiation agenda and program should also be agreed beforehand and this may become the start of the first phase of the negotiations. These detailed arrangements should all be pre-discussed and agreed with the Chinese Partners. This is to ensure that the negotiations can start on a friendly basis with no ‘loss of face’ and poor *guanxi*, caused by a wrong choice of venue or poor logistic arrangements.

The initial first phase of business negotiations in China will normally involve introductions and getting to know each other. This may occur over an informal welcome dinner or lunch by the Chinese partner. During the meal, there may be long informal discussions over family, career, home countries, education and interests etc. These may cause some foreign negotiators, who are unfamiliar with Chinese culture and customs, to become quite impatient and wonder what all these discussions have to do with formal business negotiations. It is very important to realize that these informal exchanges are important and valuable for two very good business reasons.

Firstly, the Chinese negotiators are actually using these informal gatherings to get more detailed first-hand information of the foreign negotiators. Different Chinese negotiators will try to collect detailed personal information about each of the foreign negotiators. These may include key information on their background, taste, style, family, interests which may become very useful information in the later stages of intensive negotiations. Secondly these initial engagements will also help to build-up trust and *guanxi*

between the Chinese and foreign negotiation teams which may be useful in the later stages of tough business negotiations. Negotiations in China can involve very intense high level interpersonal activities and exchanges between the Chinese and international negotiators. Therefore both the negotiation teams have to be well-informed about their counterparts and their backgrounds, in addition to the negotiation topics. It will be also useful to know more about the culture, codes of ethics and values of the other party’s organisation via detailed competitor analysis. This information can be very helpful in developing the appropriate negotiation approaches and to avoid costly misunderstandings during the intensive negotiations.

China negotiation business case reviews showed that at the start of formal high level business negotiations in China, both the Chinese and foreign party negotiation teams should be led by their chief negotiators, who should have been formally appointed by their respective management. It is normal practice at the first formal negotiation meeting in China that the chief negotiators from both sides should show each other their ‘letter of appointment’ from their head office. It is important that this letter of appointment is not only signed by the CEO but it must be stamped with their official company seal (the company chop), as this is common legal practice in China. The Chinese partner will normally ask their lawyers to check and verify the letter of appointment from the foreign company. They will also ask the foreign partner to supply a copy for the Chinese company’s files. The foreign partner should also ask to see the Chinese partner’s appointment letter and get an official copy. This formal exchange and confirmation of appointment letters will normally be minuted and noted in the first joint negotiation minutes by both parties.

During negotiation each team member should be assigned different roles including being the team spokesman on different topics. It is highly desirable that the chief negotiator is not always the spokesman to allow them more room and flexibility in the later stages of negotiations. One team

member in each team should be assigned the important role of being the official note-taker and prepare the minutes. After each negotiation round, both sides will normally prepare and agree a joint minutes of the negotiation together with key agreed items, open items and action points. The chief negotiators of both teams will normally agree and both sign the joint negotiation minutes, after each negotiation round. These signed minutes will help each negotiation team to brief their respective management. They can also discuss the new negotiation strategies and get the necessary new mandates from their management, prior to the next round of negotiations.

It is also very important for the international negotiators to find out who from the Chinese negotiation team has the real authority to make decisions during the negotiations. It is often not easy to find out who the real decision-makers are and it may require tactful, in depth investigations. If the negotiation team cannot negotiate directly with the real high level decision-maker which is quite often the case, then they should determine the authority of the person with whom they are negotiating with so that they can plan their strategy accordingly. In addition, they should structure their key messages clearly and keep them simple to ensure that these will be reported correctly to the real decision makers, who may not even be present at the negotiation table. In these cases, the joint negotiation minutes are even more important as the Chinese negotiation team will be using these to brief their real decision makers and top management, after each of the negotiation rounds.

The Chinese negotiators will also normally stress that the key 'principle of equity and mutual benefits' has to be applied in all their negotiations and final agreement. To ensure that any agreement reached is equitable, fair and reasonable for both parties, the negotiation teams may discuss adopting suitable international, objective criteria. However these may involve lengthy negotiations as both sides will be keen to ensure that these international criteria do not give unfair advantage to the other side.

One of the biggest dangers during negotiations in China is being too eager to reach agreement quickly, without having suitable alternatives and options to fall back on. Hence it is important for both the negotiation teams to pre-agree suitable alternative options with their management before a negotiation round as this will help to clarify their negotiating positions. It is also important to estimate and evaluate the other's party alternative negotiation positions plus strengths and weakness. If one can determine that the opposite party does not have any good alternative positions, then these could help to improve one's negotiating power to achieve a more favorable win-win negotiation deal in the end.

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Eurling Henry K. H. Wang is Director of Development and Improvement and Executive Adviser at SABIC. He was invited to join the University College London Enterprise External Advisory Board to advise university senior leaders. He has been invited to give distinguished speaker lectures on business management, energy and strategy at leading universities and business schools in the US, UK and China. He is a senior executive, international adviser & author with extensive high level business experience globally. He has held various board director and chairman positions, being elected as Vice Chairman of OECD BIAC International Energy & Environment Committee and advises OECD Governments. He was invited to join the China Carbon Forum Advisory Board and the International Energy Forum Industrial Advisory Committee. He has also advised international authorities, intergovernmental agencies, leading companies and universities globally. He has been invited to speak at key international symposiums & conferences on management, energy and strategy. He holds international patents in US, Canada and GCC. He has published management and technical papers in international journals. His first book *Successful Business Dealings & Management with China Oil, Gas & Chemical Giants* was published globally in 2013 and recommended by leading institutes in China & GCC. His second book on *Energy Markets in Emerging Economies – Strategies for Growth* will be published globally in 2016.

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