

IESE Business School

167

May-Aug. 2024

INSIGHT

Where ideas and people meet

Leaping ahead

Lessons from Africa for
making strides in business

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Published by

IESE Business School — University of Navarra
Legal Deposit: B 24325-2018 — ISSN 2604-5907



Audited circulation (distributed online): 52,849

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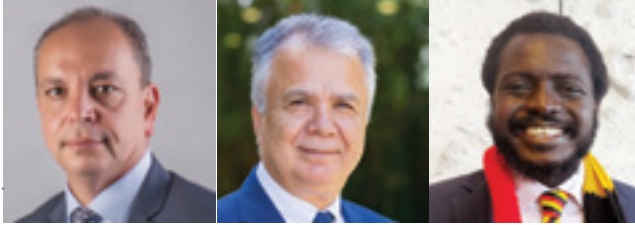
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BARCELONA

Leaping ahead

Lessons from Africa for making strides in business

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Joan E. Ricart
Editorial Director of *IESE Business School Insight*

Reasons for optimism

For years I've been collaborating with colleagues to identify good practices in sustainable development through IESE Cities in Motion and PPP for Cities. Sustainability is not just essential for the survival of a specific community; sustainability is the foundation for addressing our planet's Grand Challenges, including climate change, rapid urbanization and deepening social inequality. By fostering ecosystems that prioritize environmental care, social equity and economic viability, we build the groundwork for a prosperous future for all.

It was with this in mind that I read the current *IESE Business School Insight* magazine with great interest. The report on Africa calls to mind our own research findings that public-private partnerships are vital for making social and economic progress in many areas, including driving the energy transition. But it also reveals familiar challenges: bureaucratic processes and lengthy negotiations to win approvals. It is fascinating to read how Africa Finance Corporation deals with such bumps in the road and how others overcome whatever obstacles are thrown their way, with creative workarounds and resilience.

Resilience is more than bouncing back after getting knocked down; it involves adapting to change and thriving despite disruptions. This adaptive capacity is crucial for ensuring our efforts stand the test of time — that we are robust enough to address the challenges of today while being flexible enough to meet the challenges of tomorrow. The executives and entrepreneurs featured in this magazine display this dynamic and adaptable quality in the face of their respective challenges.

Given their example, it's unfortunate that Africa tends to get less Western management attention — a point made by IESE's Yuliya Snihur in a recent paper. This is to our loss, and it's something we are consciously trying to improve in our own global ranking of smart and sustainable cities. Part of this is due to a lack of available data. But as new information becomes available, we strive to expand our coverage so as to provide broader representation. For example, every edition of our Cities in Motion Index adds new African cities. In our latest edition, Cape Town ranked as the No. 1 smart city in Africa for its commitment to improving livability for its citizens, providing free Wi-Fi in public spaces and more digital access to municipal resources. Our *Insight* report shares more about South Africa's incredible digital advances, this time in relation to healthcare.

I commend this report and the whole of this magazine to our business readers with a call to focus on sustainable and resilient communities to deal with global problems. May it fill you with as much optimism about your future as the leaders featured inside have about their own.



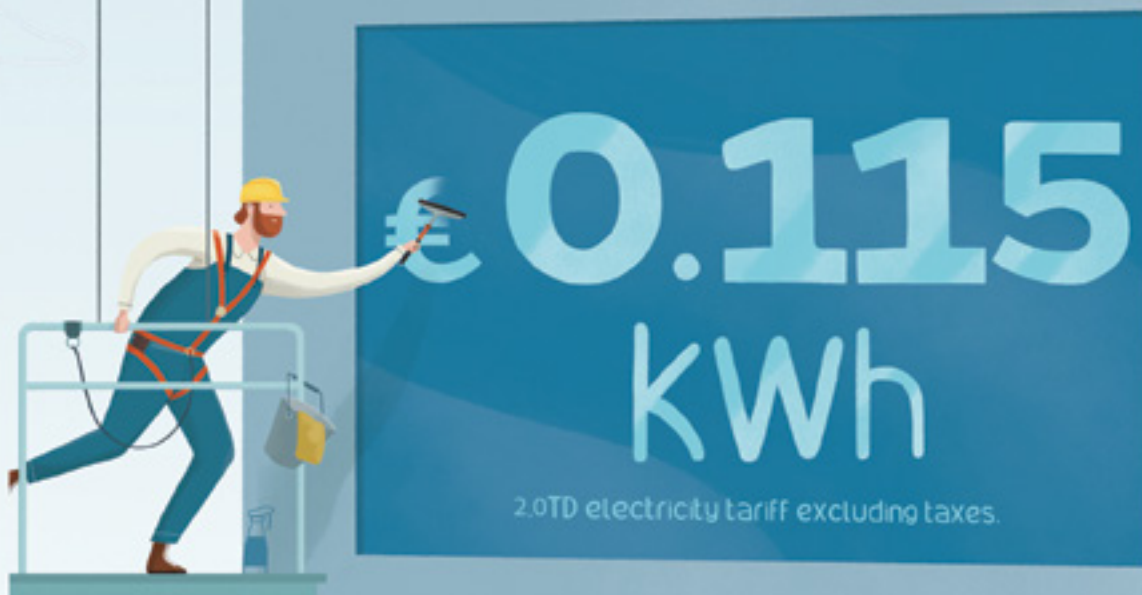
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REPORT



Leaping
ahead

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Lessons from Africa for making
strides in business

The West knows best: how often have we heard this? There is a widespread assumption in the business world that Western practices can be applied in all contexts. Non-Western approaches are niche while the Western way is the universal, default setting for doing business. However, as Ugandan entrepreneur Peter Nyeko asks in this report, what happens when reality doesn't neatly line up with Western frameworks? What then?

IESE professor Yuliya Snihur and co-authors recently reviewed a decade's worth of papers published in the *Journal of Management Studies* and found only 12% of them came from non-Western contexts. In some years, the percentage was as low as 3%. According to the authors, the marginalization of non-Western voices is a travesty, impoverishing our understanding of the distinct cultural, political, regulatory, organizational, relational and ethical contexts needed to succeed in market contexts that are increasingly central to our global economy.

Speaking at the World Economic Forum in Davos in January 2024, former U.S. congresswoman Jane Harman said, "We still think of Africa as an afterthought," when in fact Africa "has a lot to teach us about sustainability and is in much better shape than many — certainly the United States." She went on to challenge the WEF audience: "Why don't we be a little more humble and imagine that our problems are worldwide, and that (solutions) could be sent our way from there?"

This is the thinking behind this special report in which we showcase insights from Africa, drawing on the expertise of our alumni and the business schools that IESE helped to establish on the continent: MDE Business School in Ivory Coast, Strathmore University Business School (SBS) in Kenya, and Lagos Business School (LBS) in Nigeria.

In line with its mission to develop leaders who strive to have a deep, positive and lasting impact, IESE has been actively engaged in Africa since the early 1990s, helping to establish, support and strengthen a top-quality, rigorous and values-based management education infrastructure there. Today, all three institutions — MDE, SBS and LBS — are widely recognized as leading business schools on the continent and beyond, with LBS consistently ranked among the top 50 Executive Education providers in the world by the *Financial Times*.

Our continued close collaboration on research and academic exchanges with all three schools, spearheaded by IESE's Africa Initiative, allows us to shine a light on innovative solutions coming out of the continent that can help address common global problems.

One of the most well-known concepts to come out of Africa is "leapfrogging." In other words, in the absence of certain institutions or infrastructures that might be taken for granted in the West, African businesses skipped those intermediary steps entirely and went straight to the development of an innovative solution, inventing novel business models in the process. In the absence of landlines and bank branches, for example, they went straight to mobile phones and mobile banking.

But there are other ways that Africa is "leaping ahead." Besides banking, we feature exemplary executives and companies in agriculture, healthcare, retail and infrastructure, particularly in relation to energy. Their stories underscore the power of business model innovation and unconventional entrepreneurship in tackling Grand Challenges — those big problems, like climate change and energy poverty, that require even bigger thinking to solve.

Africa is “leaping ahead” in many ways and we share inspiring stories from the continent

Of course, as Snihur acknowledges in her paper, it’s hard to generalize about vast geographies with so many cultural nuances and differences. Just as “the West” imperfectly encompasses everywhere from Europe and North America to Japan under its umbrella, likewise Africa, as the world’s second-largest continent, comprises 54 different countries, with South Africa sometimes lumped in with the West. For our report, we have endeavored to find best-practice examples whose activities span the north and south, east and west, providing a flavor of Africa’s diversity.

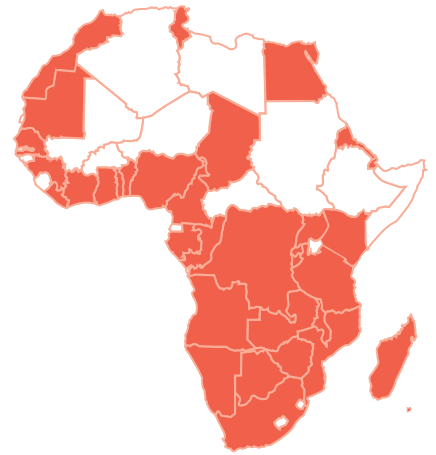
We also strove to feature homegrown examples: businesses born of the continent, rather than Western multinationals operating there (although they, too, are finding tremendous opportunities in Africa).

We commend this report to you. We hope it inspires fresh thinking on sustainable growth, shared value and social impact — concepts that we believe are applicable to any corner of the world. ■



Ermias Mebrate Mengistu
Director, Africa Initiative





Sameh Shenouda

Executive Director &
Chief Investment Officer
Africa Finance Corporation (AFC)
(IESE Global CEO Program 2024-25)



Ahmad Rahnema Alavi

IESE Professor of Financial
Management



**WE GET
THINGS DONE**

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AFC is truly pan-African, counting 43 African member states making public-private investments in 36 African countries to deliver transformational infrastructure projects in five priority sectors: power, transport, heavy industries, natural resources and telecoms & technology.

They say every failure is a step to success, and that's certainly true for Sameh Shenouda. With decades of experience in infrastructure investments and fundraising in capital markets, it was while working for Blackstone that he was tasked with setting up Zarou, a standalone venture for investing in renewable power assets in emerging markets. "But they didn't really understand emerging markets," he recalls. "And then COVID hit, and the projects I presented for investment got turned down. I didn't want to spend years of my life presenting projects that never saw the light of day."

Which led him to join the Africa Finance Corporation (AFC) in 2021. As an Egyptian, working for a financial institution created by African states to provide infrastructure solutions for African states was highly appealing: "I always felt there was a need to bridge major infrastructure gaps and boost productivity and

economic growth on the continent. And AFC, to put it simply, gets things done."

Whereas other investors might shy away from writing checks for early-stage infrastructure development projects, AFC closed 20 transactions in 2023 alone. "That's a huge number of transactions, especially by African standards," he says. "There are very few investors who understand the African environment and do a lot, rather than talk about it and do very little."

IESE Prof. Ahmad Rahnema is aware of the challenges. He previously held the Fuel Freedom Chair for Energy and Social Development at IESE, dedicated to researching energy solutions for Africa in critical areas such as transportation and power generation. He was keen to find out how AFC is closing the infrastructure gap, especially considering that an estimated two-thirds of the infrastructure required for Africa's sustainable development is yet to be built.

Ahmad Rahnema: As I understand it, for every dollar AFC invests in a project, you attract another \$5-\$6 from third-party investors. In 2023, AFC disbursed \$1.5 billion in investment, despite a challenging operating environment, including high interest rates, inflation, rising debt, slow growth and geopolitical uncertainty. How do you do it?

Sameh Shenouda: Let me take you through the process. The biggest bottleneck in moving from the concept stage to a project operating on the ground is early-stage development. So, if the project is to build a power plant, the biggest hurdles are negotiating with the governments and other vested parties to get the licenses, the land rights, the power purchase agreement, the Engineering, Procurement & Construction (EPC) contract, and so forth. Once you have all those key agreements signed, then you are able to attract other lenders or equity investors more easily.

Our projects are structured as public-private partnerships, counting 43 African states as members, which enjoy preferred creditor status, immunities, tax exemptions and other privileges. We're the second-highest rated entity in Africa, with

an A3 rating, which means that our cost of funding is much lower and our credit rating is much better than many countries'. This is a key differentiator for AFC: Because we de-risk the opportunity, it becomes a bankable project attractive to investors, making it easier for them to invest in the project.

When we built a port in Gabon with partner capital, it happened this way. A private equity fund backed by a number of European investors came on board, but they told us they wouldn't have done it earlier when it was still in concept; it was only because we had developed other ports and had another one being developed that made them confident to invest alongside us. We see this a lot in all our sectors.

AR: Do you find this has a snowball effect, or what we might call, if it were digital, network effects, where the more projects you do, the bigger AFC grows, which builds legitimacy, feeding a virtuous circle of more and more investors?

SS: Yes and no. At the project level, yes. This is reflected in how fast we have grown. Since Samaila Zubairu joined as

CEO five years ago, the balance sheet has grown from \$4.5 billion to \$13 billion. That growth is easy to demonstrate.

The “no” part is that so much money in the world right now is looking for climate-related impact investment. However, Africa isn’t on the radar of many funds. What’s really frustrating is that Africa is only responsible for 3% of global carbon emissions, yet we suffer the consequences of global climate change. What we need is basic infrastructure, in addition to carbon-reduction projects.

Meanwhile, Africa has the world’s second-largest forest. One of the world’s biggest stores of critical minerals that go into battery manufacturing. We have a lot of sun across the north and a lot of wind along the coasts. Still, the money is not flowing fast enough our way. There’s a lot of African money interested in what we do because they understand Africa. But it’s a shame we don’t see more non-African funding coming in.

AR: Speaking of climate change, are you seeing your investment portfolio mix tipping away from fossil fuels and toward more renewables?

SS: One of the challenges of Africa is that there are 54 countries, and outside of a few countries such as South Africa, Egypt and Morocco, there is no unified, large-scale renewable energy. Three years ago, we had three renewable energy projects, and we felt we could not be who we are and not attract party capital into mega renewable projects. So, we presented a strategy to our board to scale up our renewable energy activities, skilling up through acquisitions, partnerships and greenfield development, to create a

multiple-asset, multiple-country, diversified platform large enough to appear on the radar of the larger international players, enticing them to come and invest alongside us. Instead of single assets, we essentially created a conglomerate of diversified assets.

Fast forward three years, and we have invested in Infinity Power in Egypt, and with Infinity acquired Lekela, a wind-energy company. Following these two investments, with our partners, we are the largest renewables player in Africa. And we have the right partners with us — the right set of shareholders, a strong management team, operating assets that are diversified geographically. Now, people are coming to us: governments want us to develop more projects for them, and investors want to be part of that success story.

AR: How did COVID-19 affect the investment landscape? As in other parts of the world, did the pandemic spur the setting up of more local infrastructure as it became harder to ship resources abroad for processing?

SS: It did. Africa has major global shares of key minerals and metals, including bauxite (30%), manganese (60%), phosphates (75%), platinum (85%), chrome (80%), cobalt (60%) and titanium (30%). All are generally exported in their mined state to Asia for processing into batteries, electronics and chips. COVID was a major disruption to this supply chain and a wake-up call, not only for us, but for everyone.

Part of our mandate is to capture as much of the value as we can within the continent. Think about an electric vehicle: maybe 2% of its value comes from the mining of raw materials, whereas the balance represents the processing of those materials and the production of batteries. What if we could reduce shipping the mined material all the way to Asia, and then re-exporting the battery or the electric vehicle from Asia to Europe and the U.S., all of which add weeks of shipping?

We commissioned a study to find the best location to build refining capacities closer to where the mines are, and bringing everything together in a place where there is power and a port. On paper, it seems the right solution, but the reality is very complex. You need to think about where the infrastructure is,

“Part of our mandate is to capture as much value as we can within the continent”



where the power is, the capacity of the country, the rule of law, all these things.

AR: I suppose this is where having governments as AFC members helps?

SS: It does. We have access to the decision makers, which helps in opening doors. However, if there's no regulatory framework to help get this done, it's challenging. For example, in the copper belt of Zambia and the DRC, the governments asked us to help. But just having the natural resources is one thing; if there's no road or rail to move the resource, then it's not worth it. So, AFC is now involved in one of the biggest landmark projects in Africa, which is the Lobito Corridor, a 1,300km railway line that will run from Zambia to the Atlantic Ocean in Angola, backed by the European Union and the U.S. government, as well as the African governments along the route. For us, this is a transformational project, unlocking massive opportunities, not only industrial but also for tourism.

AR: Some investors might run scared, given the political instability of some countries.

SS: For an outside investor, the risk perception seems high, but for us, the real risk is lower; it's the environment we live in. And regardless of who's in power, the need will always be the same. Obviously, there's a risk of a new government not understanding the importance of what we do, but there's an education process. We understand the landscape very well and we're resilient.

AR: Resilience is a key quality nowadays. What other qualities are needed to navigate this new world order?

SS: You need to understand the markets you're working in very well, and if you don't understand them, then partner with someone who does. And make sure you're like-minded: you don't want a partner who will walk away at the first sign of trouble. You also want to front-load the risk, as I explained before. Some people treat risk as investing in five projects, assuming they will lose money on four, but the one that succeeds will offset the four failures. We don't do that: we assess the probabilities of success right from the start, and once a project enters our pipeline, we throw all our weight behind it. For every project we've done, I think our hit rate has been 80-100% because we reduce the risks at the beginning.

In terms of individual qualities, it's about having an entrepreneurial spirit of getting things done and being impactful. Reframing every problem as an opportunity and being agile.

AR: Which AFC project has been the most impactful?

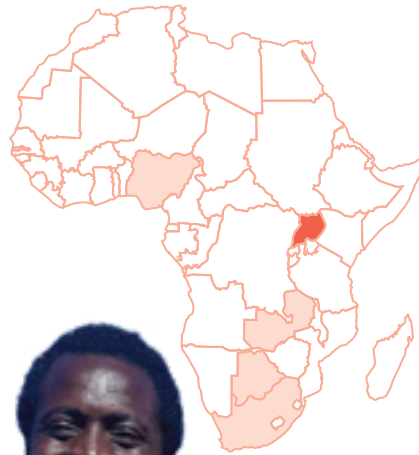
SS: Every single one! No matter the sector or how much money, every project has had a major impact on people's lives. That's why I've always worked in emerging markets, mostly in Africa. I want to do good while doing well, and seeing our investments delivering real results is incredibly satisfying.

AR: Africa seems to be at the center of the solutions of many common issues facing the world today, whether it's renewable power or food security. And yet investments, capital flows and the asset allocation of sovereign funds, pension funds and insurance companies remain limited for Africa — it's generally not on their map. If Africa holds the solutions, how do you change that?

SS: The tipping point has to be convincing those funds to put, not 1% but even just 0.1% of their asset allocation into African infrastructure. That would be a gamechanger. People also need to change their view of Africa from an aid-and-famine picture to a real partner in strategic sectors that has people who can get things done.

From where I sit, all I see is the potential, the opportunities, the development need. I see a growing, young, smart population who doesn't get enough opportunity. Africa has the youngest population in the world. Instead of having them thinking of migrating abroad, we can develop their capabilities and create jobs on the ground, which would support the world economy generally. All of the pieces of the puzzle are there; it's just a matter of putting those pieces together.

AFC could be 10 times the size it is now and there would still be an infrastructure gap in Africa. AFC has been very successful at doing what it's doing. But we can always do more. ■



Lessons from Uganda

Based on the circular economy and using satellite and AI technologies, Mandulis Energy takes a nature-positive, hybrid approach to bioenergy for carbon capture and storage, biomass carbon removal and storage, and high-quality biochar-based carbon removals. In doing so, it delivers sustainable, affordable and reliable energy access, along with clean cooking and biochar organic fertilizers for soil regeneration. Mandulis leverages climate finance to decarbonize development by deploying sustainable infrastructure that powers agriculture and enables industrial supply chains to become more green, robust and inclusive.

Started in Uganda in 2012, Mandulis is building synergies to further scale and replicate its impact across Africa, expanding into Botswana, Nigeria, South Africa and Zambia, as well as across Asia and Europe. "It has been back-breaking work," says Peter Nyeko. Here are the lessons he has learned.

Peter Nyeko

**Co-founder & Managing Director
Mandulis Energy
(IESE Foundations of Scaling Program 2024)**



Keep an open mind. Sometimes reality on the ground goes against what you learned in business school: it doesn't follow Porter's Five Forces. That's when you need to stop offering products or services that have no value to a community and start figuring out what they do value. To deliver electricity, it was the realization there was no way the community could afford the electricity and therefore no way to make a profit, so Mandulis had to figure out how not to be an electricity company. That changed the entire business approach.

Your customer may not be your customer. Mandulis initially thought of selling clean products to reduce the cost of cooking, before realizing the most valuable thing was the ash coming out of stoves. Once the focus shifted to the waste coming out of the power plants — the CO₂, for example, which Coca-Cola can use in its bottling, making Coca-Cola the customer — Mandulis was able to turn a vicious cycle into a virtuous one. The farmer whom they thought was the customer stopped being the customer and became a co-stakeholder as a source of production instead.

Don't fail fast, fail forward. It's a process of continuously improving and educating investors to walk the journey with you. "Before doing this, I worked in aerospace, where you spend years testing a product to make sure it's not going to fail. I use the

same mindset, looking at each small step as a massive step for humankind. You do lots of different feasibility studies, year after year, gathering feedback and carefully documenting processes, until you finally tick every box, and it scales and takes off. It's a dogged focus, not on one solution, but on the success of whatever solution emerges at the end of the journey."

Find like-minded partners. Most global companies have made sustainability commitments, so there's a massive opportunity there, because those companies will be looking for opportunities to demonstrate their commitments. Partner with other brands and make alliances, which will help you scale some solutions.

Be human. Spend time with the community you hope to reach. Connect with them as human beings: figure out what they like and how what you do as a company can steer them away from what makes them sad and toward what makes them happy. "We hold open days, with lots of fun activities, but also lots of honest feedback, which helps us learn more about where we are, where we're going and where we should be going as a company." Invest in the community: Mandulis invests in land alongside the farmers to understand directly what their challenges are. "By walking in their shoes, we not only understand them better, but they also take us a lot more seriously."

Ayodeji Balogun

Group CEO, AFEX
(IESE Global CEO Program for Africa 2019)



Donald N’Gatta

Professor of Accounting
MDE Business School, Ivory Coast
(IESE PhD 2021)



SOWING CHANGE FOR FARMERS



In many countries, farmers get the short end of the stick. They grow commodities like cocoa and coffee, soybeans and sorghum, which they then have to harvest, store, transport and hopefully sell for a good price — *if* they can access a market and *if* the trade price is high enough to make it worth their while. And when you're talking about small family farms, those are big *ifs*. From Europe to India, 2024 began with waves of protests by local farmers, voicing complaints all too familiar to their African counterparts: lower prices for their goods, higher costs, too much bureaucracy and unfair competition from other countries, all of which were crippling their ability to make a fair living.

Ayodeji Balogun, whose dad was a farmer in rural Nigeria, understands these complaints well — so well, in fact, that in 2014 he launched AFEX Commodities Exchange to intermediate between commodity producers and buyers, and make the process more profitable and sustainable for all.

Through a tech-enabled trading platform that updates commodity prices daily, farmers can produce the right quantity and quality that the market needs, and that is matched with buyers for

processing and/or reselling. AFEX also provides logistics support through an accredited network of warehouses, key for ensuring that farmers' perishable goods make it to market. They also settle deals in cash on the spot — a boon for smallholder farmers — though by putting commodities trading in the hands of users, trades can be carried out, deliveries traced and credit extended through a mobile app, empowering farmers even further.

"Think of it like Amazon," explains Balogun. "Somebody is selling, somebody is buying, and somebody has to pick it up from the warehouse and deliver it. That's essentially what we do: we're the Amazon for commodities."

Having expanded eastward to Kenya and Uganda, AFEX is now expanding westward from Nigeria to Benin, Togo, Ghana and Ivory Coast. As a business professor in Ivory Coast, Donald N'Gatta is interested in Balogun's process of expansion and finding out how agritech like AFEX's can help create sustainable value for farmers whose challenges are being compounded by climate change. Here, they discuss an alternative vision for agriculture that puts farmers first.

Donald N'Gatta: Smallholder farmers typically lack vital resources, whether equipment, capital or education. How does AFEX help them?

Ayodeji Balogun: African smallholder farmers are no different from anyone else: they make rational economic decisions, trying to optimize revenue within the resources available. It's the same decision-making process I go through if I were to travel to my hometown 300 kilometers away. The fastest way is to fly, but if I don't have the cash to pay for flight tickets, I go by car, and when I can't use a car, I use a bus, and so on. A farmer does the same: he knows he needs to plant on time, using the right mix of fertilizer and hybrid seeds, and his productivity will go up and he'll make more revenue. And if he has the cash, that's what he'll do. But when he doesn't have the cashflow, then he rationalizes and says, "Let me use the seeds from last year, and I'll use three bags of fertilizer instead of six." That affects his productivity but it is the optimal rational economic decision for him to make at the time.

What we do is go back to the fundamentals. Who is this farmer? Is he an economic actor? Is he financially included? Can we understand his productive assets: his land, what crop that land can best produce, would it be more efficient for him to be part of a collective? And then we provide a bundle for him, whether a loan so he can buy seeds or fertilizer, or upskilling and training, or help with his choice of when to sell. Some will sell at the price at harvest; some will wait if they feel they can get a higher price in a few months' time, and use a forward contract.

We operate on the assumption that farmers are brilliant. They've been doing their job year in, year out, for decades. Although we offer them loans, they're not farming under contract with us. They own the commodity, and they choose what they want to do with it. Our job is to give them more tools for them to be able to exercise their own rational economic choices.

DN: And your technology platform enables all this information to be aggregated and shared, correct?

AB: Correct. We start with the registration and profiling of the farmers and archiving their data. Then they take a loan. Someone works with groups of between 200 and 400 farmers to track the data on loans and repayments and to close the trade on behalf of the farmer. That trade goes to the exchange, reporting the value of the commodity on any given day. The buyer could be a food company or an export company. That value then goes to the farmer, with a fee paid by the buyer and the seller on the exchange.

“What are the biggest problems for farmers? How can we create something that addresses their needs?”

DN: How does this differ from traditional commodities exchanges?

AB: Other commodities exchanges operate like stock exchanges, where you trade, there’s an auction, you try to beat an offer, and the winner takes all. Or there are futures exchanges, which cater for big buyers and big trading houses and financial institutions. But until AFEX, there was no model on the continent that took a view of the productivity of the farmer, the broader ecosystem and the logistics in between, and tried to connect all that in a holistic way.

When we set out to create our commodities exchange, we thought it was about building the biggest, most expensive technology platform. But upon engaging with the market, we



realized the real problem we needed to solve was reaching the outermost perimeters of the supply chain; that if you don’t solve the problem of the last mile — the quality, quantity and productivity of the farmers — then you don’t have any exchange without any volume flowing through it. That was the point where we started to innovate and say: What are the biggest problems for those farmers? Which problems can we solve for commercially and at scale? How can we create something that addresses those needs?

DN: Was offering storage facilities part of that desire to move closer to farmers’ needs?

AB: Yes but not to be in the business of storage, which other people can provide, just as we are not the only ones to offer loans to farmers. Rather, we provide storage as a service with retail to the farmers who then pay upon exits when they’re dispatching or selling the commodity. Our innovation was really looking at what existed and then connecting all the various fragmented solutions together into a holistic, integrated, inclusive solution that has farmers, traders and processors together.



40% AFEX farmer **60%** Non-AFEX farmer

88% Male

33 million smallholder farmers, constituting **60%** of the population in low-income African countries

52% of African population is unbanked, with cash the dominant form of payment (2023)

Ivory Coast & Ghana
Top 2 cocoa-producing countries in the world, together accounting for **52%** of global market share (2020)

Global rice prices at 12-year high in 2023 owing to:

- India's ban on rice exports
- Impact of El Nino
- Rain-induced disruptions during Vietnam's summer-autumn harvest
- +37% price increase in Nigeria due to flooding during the wet season

DN: How do you manage price volatility so local farmers are less exposed to price fluctuations?

AB: We focus on 10 commodities, of which five (maize, rice, sorghum, soya and wheat) are staples that are produced and majorly consumed locally. The other five (cashews, cocoa, coffee, ginger and sesame) are more export oriented. These two baskets have different price volatility risk profiles.

Staple commodities behave rather predictably, because all farmers plant and harvest around the same time, with little price modulation until the end of season when prices start to go up before the new harvest comes in. Then you have a reset and a new price discovery call for the next season.

For international prices, there are more fluctuations due to speculative activity on futures markets as well as the transmission effect of what happens in the wider world on those prices. One of the things that spurs us, as innovators in this market and also being a pioneer pan-African commodity exchange, is that we need to move price discovery closer to the market of origin. Whether COVID-19 or Brexit, these external

macro crashes have a huge impact on prices but zero correlation with the cost profile of the local farmer. Our view is that we need to build markets that are closer to origin and where farmers can get fair value on supply-and-demand fundamentals rather than being subject to extraneous macros that have very little correlation with farmers' cost of production.

DN: This seems to be part of a trend of relocalizing trade.

AB: I see it as glocalization. What we don't want is an extremely just-in-time world where everything is traded futures, everything is overcommoditized, and the story of the producer and where these commodities come from is reduced to a price sticker on an exchange. That's the world we don't want — a world so stretched for profits that it puts the sustainability of the producer and of the environment at risk. So, if I buy a pineapple in Europe, I want to know what percentage of the price I'm paying goes to the farming community that produces it. How was it planted and harvested? Then, it's my choice of which I want to buy, and I could choose to pay a premium because I know the details of who produced it.

CAGE framework

Distance matters. When expanding across borders, analyze how close or far apart the foreign market is from your own. Depending on your sector, certain dimensions may make it easier or harder for you to operate there.



Cultural: shared language, values, social norms, etc.



Administrative: trade agreements, common currency, political situation, etc.



Geographical: obvious physical distances or borders, affecting ease of transport and communication links, etc.



Economic: country resources, income levels and inequalities, infrastructure, etc.

SOURCE: *World 3.0* by Pankaj Ghemawat (2011), cited in “Globalization under fire: how should leaders respond?” from *IESE Insight* magazine no. 35 (Q4 2017). The CAGE Comparator tool at <https://globalization.stern.nyu.edu/> allows users to input a country and it calculates the relative size and weight of business interactions between countries based on CAGE criteria, with the possibility of generating custom maps that are distorted accordingly.

DN: There's some research evidence that doing business in Francophone Africa is different from the rest of the continent. What did you find during your expansion process?

AB: I'm a big fan of IESE professor Pankaj Ghemawat's CAGE framework (see sidebar). If you look at our expansion, we first went to Kenya because of CAGE similarities: the English language, the British cultural heritage, the common law legal system. Uganda was next for similar reasons, and also because of the existing bilateral trade relationship between Kenya and Uganda, and the ease of flows, in trade, people and flights, between those countries. In expanding west to Ivory Coast, the geographical proximity makes sense, even though it may be culturally and linguistically different.

But regardless of whether I'm doing business in Ivory Coast or in East Africa or even in the northern part of my own country (which is Muslim-majority), whenever I go to my farmers, I must always respect their culture, whether that means taking off my shoes before going inside their house or waiting for them to invite me in because they may have females inside who need to cover up. I need to first show respect to others before they will respect me and give me the social license to operate. When setting up in Ivory Coast, I know the Nigerian accent can come across as a bit aggressive, so I need to have a team there who understands that cultural context better than I do. At the end of the day, culture is key.

DN: The Ivorian cocoa industry is facing pressure to help farmers achieve decent incomes while stopping deforestation. How can AFEX contribute to progress here?

AB: We're starting with cocoa, because it's important to have one staple crop and build out from there. We're testing the culture, the model and training the people to make sure we have a strong base that we can build on. For us, the focus is food security for the African continent, as well as bringing more value to farmers. In Nigeria, over the past 10 years, we've grown our rice production capacity by about four times and reduced our imports by about the same. How we evolved this ecosystem is something that I think we can also bring to Ivorian markets with cocoa.



In talking with people in the cocoa sector, people say it's a highly regulated market with concerns about deforestation. One of the ways we can help is through geotagging, especially for high-risk export crops like cocoa, where the output from the farmer can be referenced back to the source, to make sure it is outside of deforested areas. We also do a lot of monitoring activities on child labor, to ensure that children are getting educated and not being used as farm workers. We want children to be in school and then they can become educated farmers. Our goal is full traceability proving lack of child labor and lack of environmental hazards in the value chain. We take all this very seriously. It's rare to find a trading company in the global food system that is a digital native and impact focused like this. I think this makes us unique.

DN: How does this fit with your idea of Africapitalism?

AB: African culture has a unique culture of care. When you come from a place of lack, you want to share what you have and be resourceful in a way that lifts everybody up together. So, we have a form of capitalism that tries to be uplifting and impactful for everybody, that generates positive externalities. And it's not charity or philanthropy. It's doing business in a way that benefits people, and in the act of doing that business, you're also solving societal problems and growing everyone's incomes along the value chain.

DN: What are the most important leadership skills to create this kind of sustainable value?

AB: Resilience. Not just willpower but wait power: being able to play the long game is extremely important. And empathy. In my journey, it's been finding that balance between empathy and execution — getting the job done, but doing it in a way that puts humanity first and treats everyone with dignity. That's something we ensure resonates in how we deal with ourselves, how we deal with our customers, how we make decisions, and how we build products and design technology.

DN: My corporate governance research reveals unresolved tensions related to compliance with environmental regulation. How do you see this affecting farmers?

AB: A lot of times policymakers pass a law that essentially says "show me a checklist" — you basically tick a box but

“We have a form of capitalism that tries to be **uplifting and impactful for everybody”**

take no meaningful action. In the more empathetic world that I just talked about, we would have a more inclusive conversation around the problem to begin with. And we would focus on innovations that actually solve this problem, with incentives structured around the value distribution, rather than focusing on checklists, which ultimately pass more burdens onto the producers.

Farmers are already struggling; they're the ones suffering the impact of climate change on their farmland, which is their only asset to produce value. And then you impose, say, a climate tax on him for something that isn't even necessarily created by him. This is a conversation the world needs to have: Should we be rewarding those who can tick boxes on checklists but do nothing, or encouraging no-harm approaches to doing business, with fewer checklists?

We need more voices in these conversations. Farmers shouldn't have to read online about policies that directly affect their income and livelihoods. They should be part of making those policies. Personally, I'm more for farmers. ■



EVERYONE WINS

Ana Endres

Chief Digital Officer
Discovery Health, South Africa
(IESE MBA 2004)



Dr. Ben Ngoye

Institute of Healthcare Management
Strathmore University Business School,
Kenya





In most countries, especially those with public healthcare, the problem of there being more demand than supply has been a growing concern, long before COVID-19 made the whole situation worse. Long waiting times, underfunded services, lack of access, inefficiencies in the delivery of care, rising rates of chronic conditions and the burden of disease, as well as the age-old debate over private sector involvement in the provision of a public good: these issues dominate nearly every national political discussion these days.

Discovery is no stranger to these concerns. What started in 1992 as a local insurance company has evolved to become South Africa's largest private healthcare funder, managing around half the members in the country's open medical schemes. Its success in

South Africa has led it to expand into other markets, not only in Africa (Democratic Republic of Congo, Ghana, Kenya, Mozambique, Nigeria, Tanzania and Zambia) but also across the Americas, the Asia-Pacific and Europe (including the U.K.), offering financial services along with car, home, business, life and other insurance products, on top of Ana Endres' core area of digital health and last-mile health service delivery.

In this interview with Dr. Ben Ngoye of the Institute of Healthcare Management at Strathmore University Business School, the Lisbon-born Endres explains how the technology-driven assets that Discovery developed in South Africa are now being rolled out globally, including into Kenya where Ngoye is based. They aim to bring costs down and make healthcare affordable to many more people around the world, under a characteristically African vision of shared value.

Ben Ngoye: Tell us how digital tools are revolutionizing healthcare in Africa and beyond.

Ana Endres: Not long after I joined Discovery Health in 2011, I was asked to drive their new digital health project. Of course, Discovery had already been doing digital servicing, enabling people to manage their healthcare plans via a digital channel. But we were adding new capabilities, like creating the first electronic health records, which was the basis of HealthID, our interface where doctors can view all the health records of a patient online; and the first online prescription medicine delivery service, called MedXpress, expediting prescriptions for chronic conditions through a network of participating pharmacies.

BN: How does the digital channel help in encouraging healthier lifestyles?

AE: It enables us to reward good behavior. So, with our Vitality platform, the more things you do that contribute toward your health, the more rewards you get back, as your health claims will be lower in the long run. That's the basic idea, and it's something we've expanded to all our insurance products. So, if you drive better, you get lower rates on your car insurance. If you save more, you get banking rewards. It's always thinking in terms of shared value: it's good for you to live a longer, healthier life; and it's good for us, as an insurer, so we share those savings with you by giving you rewards.

BN: What are some health rewards?

AE: If we start from the standpoint of wanting people to be healthy, wanting people to be aware of their health status and regularly check it, that means they should have a health assessment every year and they should be exercising, eating healthy food, sleeping well, reducing their stress levels, and so on. So, every time a person does any of those things, we reward them for it. It could be 25% cash back on healthy food purchases. Or special prices on meditation apps. Or up to 75% off your gym membership if you go to the gym a minimum of three times a month. There's a broad list of rewards. We have an entire network of partners, from food retailers to gyms. And because not everyone is a gym person, we partner with device companies, like Fitbit and Apple Watch, to offer the devices almost for free so long as people show they're hitting their targets in terms of running or doing their steps every month. At the moment, around half the members of our health medical scheme have activated the Vitality program and are leveraging those sorts of benefits.

BN: In what other ways are you leveraging technology?

AE: Digital allows us to constantly expand the healthcare offering in more cost-effective models and across longer distances. And it's not just about digitizing services but it's expanding the number of people who can access the benefits. For example, we launched prepaid healthcare vouchers,



made possible by us being able to leverage our scale as a group and negotiate better prices for a consult with a doctor, with a package of medication included. Now, anyone who doesn't have health insurance can access this option, covering basic needs around primary care, at an affordable cost.

BN: What effect did COVID-19 have on the uptake of your digital offerings?

AE: We had been offering virtual consults before 2020, but we had some regulatory barriers that limited uptake. In South Africa, it used to be that you could only have a virtual consult with a doctor who had previously seen you physically; so if you were healthy and at best saw a doctor once a year, then trying to set up a marketplace — matching people who wanted virtual consults only with doctors who had physically seen them before — was practically impossible. And then COVID-19 happened and suddenly a number of those barriers

were eased. Almost overnight, the uptake of virtual consults went from a few hundred a month to suddenly 10,000 a month. Patients and doctors both wanted it in order to lower their risk of COVID. We now have on-demand Virtual Urgent Care whereby, in as little as 90 seconds, you can be talking to a doctor online.

COVID paved the way for this and also for partnerships that we hadn't done before, such as with telecom companies. With Vodacom, we offered virtual consults to all South Africans for free, including no data cost. We also partnered with the government to develop a contact tracing app.

BN: With these partnerships, what are the special considerations you need to bear in mind, especially when dealing with patient data and the need for privacy?

AE: The level of data protection depends on the type of partnership: the more data being exchanged, the higher the data protection level required. If we partner with a digital therapeutic or a pharmacy to deliver medication — where we're actually exchanging patient information to make the journey easy for the patient, with single sign-on and so forth — then we enforce the highest standards around data security, penetration testing, consent management and the like. But if a partnership doesn't require any data-sharing, then that's a different story. With Vodacom, they were just zero-rating the virtual consult calls for us; they weren't actually receiving any confidential patient information. Moreover, we own the patient consent engine; we don't leave it to partner entities to grant consent. And we always allow our members to give or revoke their consent whenever they want and for each of the different solutions.

But voluntary data-sharing is important for the benefits I talked about earlier: better clinical outcomes if the doctor can see your



health history, better experience if your data is prepopulated into the third-party partner solutions, among other benefits.

BN: Do you find some groups, such as those socioeconomically worse off or the elderly, who may be more vulnerable and could benefit the most from health rewards, might also be less digitally connected or savvy? How do you deal with that challenge?

AE: We haven't found digital to be the biggest barrier. The bigger barrier is making the offer affordable. If people find the cost too much for them to bear, then that is a barrier. So we're constantly looking for ways to lower that barrier to the minimum it can be, while offering a high-quality product, to bring in as many people as possible. Once people are in the app, it's easy to track what one should be doing to improve one's health, and we have health coaches and other supports to help people understand these programs better and work with them to change their behaviors, using engaging gamification.

BN: How are you using AI in this process?

AE: We're currently piloting a generative AI-supported coaching platform. And it has been incredible to see a good percentage of people over 65, or 80 even, engaging with the generative AI chatbot. So, we had a cohort of diabetics or people who were at risk of becoming diabetics (which we could detect through their annual health assessments). And we offered them sessions with a health coach — these are virtual touchpoints but with a real coach, with the app nudging members every day and allowing both parties to chat back and forth. The power of the generative AI is in laying out potential responses that the coach can then adapt and edit, as well as creating continuous and context-aware engagement with the member. And the system is constantly learning from the engagement. The coach then becomes much more effective and efficient in being able to answer right back and creating continuous contact. The use of AI in this way has really transformed engagement: we've seen 84% engagement rates in our pilot so far.

BN: Discovery has been operating in South Africa for over 30 years. What made it start expanding into the rest of Africa in 2022?

AE: We had been pondering expansion into the rest of Africa for a long time, but there were always reasons for not

starting then — either a lack of industry maturity, or specific opportunities outside of Africa that were demanding a lot of attention. At the beginning of 2021, it was decided that the time was right to expand to the rest of Africa, and in January 2022 we went live with the first health insurance product.

When choosing which countries to expand to, there must be a certain number of things in place for a market to be of interest. For instance, it has to be large enough, with a significant concentration of local, reputable employers for us to partner with, as we were initially offering our health insurance products to corporates, not individuals. There also needs to be a mature network of private healthcare doctors and services. The regulatory environment has to be supportive for us to get a license to operate. All these things need to be in place.

Two years on, we are now present in seven other African countries. We see so much potential in the rest of Africa. We're just touching the tip of the iceberg.

BN: What were some of the challenges?

AE: Data availability for starters. There was little to no data for us to properly estimate the likely claiming patterns in those countries. So, we had to go with certain assumptions. After a few months post-launch of seeing real data, we could understand how many of our assumptions were correct or not, and then reprice our product based on the real data.

We also had some learnings around doctor and healthcare provision networks, specifically the depth of the network required to meet the local expectations.

BN: As your business model relies so much on digital, did you find digital penetration to be an issue?

AE: It varies from country to country. Some countries are much more mature than others when it comes to digital solutions.

“We see how all individuals, doing this together, benefit society. We are all healthier together”

Kenya has got outstanding tech. For instance, they have sophisticated solutions to combat card fraud (such as when people give their own medical aid card to someone else who fraudulently uses it). It was easy to find a partner with a ready-packaged digital solution for handling those sorts of issues.

That wasn't the case in every country. We come with state-of-the-art devices that can, say, read your cholesterol from a blood drop from your finger and automatically upload the data to the cloud. And in some countries, people wouldn't trust the quality of this health test unless the blood was drawn from veins and analyzed the traditional way.

BN: Prior to Discovery, you worked for U.S. multinationals, including Johnson & Johnson. What are your reflections on the U.S. healthcare market?

AE: We see great healthcare innovation happening in the U.S., but overall healthcare there is extremely expensive and just keeps on getting more expensive. In terms of data-sharing and for interoperability to become commonplace, it doesn't seem like the rate of return has been commensurate with the huge amount of money they're spending. It's a super fragmented market with very little joined up.

The difference we have in South Africa is that Discovery Health captures half the market. This means we've got scale, and with that comes the power to negotiate things that would be unusual in other countries. We also have two key digital assets: the apps, via which we engage with members directly on what they need to be doing to improve their health, and the doctor interfaces, where doctors see their entire population of patients on health management dashboards and, at the press of a button, can nudge a patient in certain directions. Having these two assets, joined together, talking with each other, is very powerful.

I'll give you an example on mental health, which has been a big problem since COVID. We nudge the member to fill in a mental health assessment and we give them points for doing so. The results are shared with the member for awareness, and we suggest whether they should book a visit with their GP. The results are also shared with the doctor, indicating if the member has booked a consult, and the doctor is able to prescribe digital therapeutics for mental health, such as one called SilverCloud on our platform. The engagement metrics, and the results on how the member is improving or not, are then shared with the doctor.

These kinds of journeys are, I think, quite important to ensure that the care isn't fragmented. It's part of our secret sauce.

In addition, the private health sector has created a health information exchange at the country level, where patients have given their permission for data to be shared. This gives everyone a better view across the board.

All these factors, developed over time, have created the picture you see today.

BN: Can you talk a bit more about this idea of shared value? It's a bit of a buzzword but seems to mean something special in the African context.

AE: There's the individual sharing of value: what you, as an individual, are doing for your health and, as a result, you get rewards. And for some it stops there. But we see how all individuals, doing this together, benefit society overall, and we want to drive this pathway for positive change at scale. We work every day to strengthen the healthcare system and expand access to care for all South Africans. We are all healthier together, and the overall health costs decrease for everyone. There are societal impacts over and above the individual impact.

Perhaps there is more of an awareness of that here in Africa. Traditionally, Africans have found private sector healthcare products out of reach because they were too expensive. Here we have an interest in expanding the group of people accessing these kinds of products and services. It's about making world-class healthcare cost-effective and available to as many people as possible. Everyone wins in the end. ■



RETAIL

Guy Futi

Co-founder & CEO
Orda Africa



Uchenna Uzo

Professor of Marketing
Lagos Business School, Nigeria



BUSTING MYTHS, BRINGING JOY



Born in Gabon to parents from the Democratic Republic of the Congo, Guy Futi grew up in Canada where he earned his bachelor's degree at Concordia University, Quebec. Then, he did a master's at Harvard and is currently working on his doctoral thesis for Oxford University on social entrepreneurship, a topic close to his heart, having previously worked for Maji Water on sustainable water solutions in Africa. He also worked for Jumia, the first African e-commerce company to list on the New York Stock Exchange, dubbed "the Amazon of Africa." Today, he resides in Lagos, Nigeria, a focal point of his thesis and where he recently launched Orda, a cloud-based platform allowing food merchants to process orders, accept payments, connect to logistics providers, engage with customers — basically, to do everything a food business needs to run its operations from anywhere on the continent.

Lagos Business School professor Uchenna Uzo was interested in Futi's perceptions of Africa's informal markets, a subject on which Uzo has done extensive research. In this interview, they discuss the myths and identify success drivers related to African retail and consumer behavior — especially important as Orda has entered Kenya and is testing out the South African and Moroccan markets, as Futi's vision is for Orda to become a truly pan-African enterprise.

Uchenna Uzo: It's beautiful to see how your business is growing in such a short span of time, which suggests there's a great opportunity to scale. What do you see that makes consumer food retail a growing domain?

Guy Futi: When looking at expansion, we're looking at restaurants. Around half our clients are restaurant owners, with the majority of them still running their businesses with pen and paper. Our goal is to use technology to unleash the power of the African food business owner. We also see a burgeoning middle class and a youthful population. The first thing people think about when improving their lives is improving the quality of the food they eat. People are always going to want to eat, and eating out is one of the last things people want to sacrifice.

Despite what's going on in the macro, those are promising indicators for a business like ours.

UU: 60% of the average Nigerian spend goes to food these days. So if you're in the food business, that's definitely a promising area. Another thing is that a lot of food businesses buy in informal settings — the open market stalls and shops. How does that impact your business?

GF: We started off with street food stalls called bukas or mama puts. They know what restaurant software is; they've seen it at places like KFC, but either they believed it was out of reach or no one had explained the benefits to them of how it could improve their day-to-day operations.



We spent one to two years educating that swath of the population about how this was going to improve their business. They might spend hours figuring out how much they earned that day, based on a bunch of receipts or guesstimating the number of dishes sold. That leaves a lot of room for leakage. And they're dealing with cash, cards, inventory, staff, rent, supply chains. It's very difficult to manage all this with just a pen and paper receipts. So, a big part of our journey was to get these merchants to go from analog to digital. And those who are using Orda are now our biggest advocates.

UU: 70% of the sub-Saharan African workforce operates in these informal market settings and 90% of retail transactions pass through informal channels. Yet many multinationals operating outside Africa express doubts about these markets, thinking they're a no-go area for investment. What do you say?

GF: I'd question how anyone could ignore 70% of an economy! I'd even go further to question how an online payment processor like Stripe operating out of the U.S., for example, can have roughly the same valuation as the GDP of a country like Congo: So you're telling me that one company is worth more than all the resources, minerals and brain power of an entire nation of 100 million people? I challenge that.

What you see on the surface does not fully represent the true value of what is really happening on the ground. If you say you can't build a proper business until it joins the formal economy, then you're going to find yourself waiting a very long time, losing out on opportunities and later finding yourself having to catch up. Better to find a way to tap into the informal economy and make it a part of your mission from day one.

UU: I've spent more than 10 years looking at different aspects of informal markets, which led me to start the Africa Retail Academy at Lagos Business School. And we've identified three common reasons people give for not wanting to invest in informal markets. I'd like to get your opinion on these. First, people say they are illegal — that "informal" implies breaking the law.

GF: People need to understand a few things. When trying to set up a business anywhere in the world — whether Singapore, the U.K. or the U.S. — the information has to flow, with transparency and clarity about how to get things done. In some places, like Nigeria, when you want to start a business,

3 market myths

Uchenna Uzo has researched Africa's informal markets, including Nollywood, Nigeria's movie industry; surveyed 1,100 street shoppers as well as surveyed MNCs using informal distribution channels; and did an ethnographic study of informal retailers representing five industries, involving 113 observations of negotiation procedures. These are the common misconceptions that turned up:

- **Illegality:** informal markets are illegal ones
- **Discontinuity:** informal markets must modernize or die
- **Irrationality:** there's no structure to informal markets

it's more opaque and blurry. If I want to set up a stall, I don't know what I'm supposed to do or what licenses I'm supposed to get, because no one has told me. And without that license, I'm technically operating illegally, but it's not intentional, it's just sometimes very difficult to find the right information.

At the end of the day, people want to work and make money. And they don't want to deal with things that obstruct that. I think that if the information were clear, transparent and easier to obtain, people would know how to structure their businesses and do so. This is what we're trying to do with Orda.

UU: The second claim is that these markets will die unless they modernize or formalize.

GF: Never. The informal market will be here forever. Even in more advanced or higher GDP countries, you still see people with street stalls. I think they'll remain a fabric of all our societies. And why would we want them to go away anyway? What we need to do is make sure they have the right information

and the right tools to grow, and then figure out how they can contribute more to the economy through taxes, for example.

UU: Third is that informal markets are completely unstructured.

GF: Certainly these markets are fluid and their practices aren't always codified. But they do have "structure" in the form of trust and social capital, which, as Francis Fukuyama famously said, is key for the economic prosperity of any society.

Commerce is essentially trust at its very core. When people buy something, they want a secure method of payment; they want to make sure that when they enter into contracts, there are repercussions for breaking them; that if someone defaults, they're going to get their money back; that there are checks and balances that foster an environment where people feel safe to do business together. This requires trust, which underpins even informal markets.

UU: It's true, Africa's informal markets have far more structure and self-governance than many people think. It's misleading to think otherwise. Let me ask you about a framework we've developed called MICE. Each letter stands for a key pillar that can help international businesses succeed in Africa. E stands for Earn the market's trust, which you've just discussed. Let's look at the other pillars, starting with M, Mastering the art of negotiation and cultural awareness. How important is this to your business?

GF: Negotiation as relates to culture is extremely important, not just in a pan-African context, but I would say in the Nigerian context alone. A market in Abuja doesn't operate the same way that a market in Lagos Island would operate. The velocity of transactions and decision-making in Lagos Island is breathtaking. Whereas if you go somewhere in the north,

MICE framework

4 keys for business success

Master the art of negotiation and cultural awareness

Invest in talent

Change your mindset

Earn the market's trust

things take time. You have tea, a conversation, a bit of bartering, and the people are more familiar with each other — trust matters here. The way my salespeople sell software in Lagos is completely different from how they would in Abuja.

In Kenya, I would say the sales cycle is longer, trust takes longer to build. Recommendations and referrals come at a premium, whereas in Lagos the right price is dictating more. So, understanding the local cultural dynamics of the markets where you're operating is essential for success.

UU: What about Investing in talent? What's your experience with talent development in order to grow business in this space?

GF: Investing in talent is crucial. In our market, the opportunities are so wide, you have to make the most of your talent while you have them, because they're going to leave eventually — it's not a matter of if but when. Africa is the perfect environment for someone with ambition, intelligence and drive, someone

60%

of the average Nigerian spend goes to food

70%

of the sub-Saharan African workforce operates in informal markets

90%

of retail transactions pass through informal channels



RETAIL

who is a real self-starter. And if you can make the most of that talent, even for two or three years, your business is winning.

UU: C is about Changing your mindset. We talk about entrepreneurial reframing – turning every challenge into an opportunity, choosing a different approach to tackle a problem. Does this resonate with you?

GF: An investor once told me that entrepreneurs have a screw loose. And I do think I may have a couple of screws loose! Everything is an opportunity. There are no problems, just the right solution hasn't been found yet. I think most of us want to get something done, and we've been told it's either difficult or impossible. But the fact that it's hard is the fun part — that's the joy!

I can't tell you the number of times people have asked me if people in the informal economy really want to pay for software. Well, yes, they do, but maybe not in the way you're looking at it, and it's up to you to figure out how to monetize it.

I was in Congo recently and people were saying there were fewer than two million debit or credit cards issued in a country of 100 million people, as if that limited the opportunities to be had there. And I was like, "Are you kidding me? Whoever is able to get the other 98% of the population bank cards — even just banking 1% of that unbanked population — is going to be wildly successful!" I was thinking I'm too busy with my own company, but here is another amazing opportunity.

UU: Finally, people talk about Africapitalism – a more inclusive form of capitalism which is about profit with purpose, using private enterprise to transform the continent by uplifting the communities in which they operate. Does this inform your business vision at all?

“Knowing I’m contributing to a crucial sector is the part I love”

GF: I don't know if I would use the term Africapitalism to describe what I'm doing. Let me express it this way: There are two things that bring me great joy.

The first is seeing our product out in the market and how it is transforming the way people run their businesses. I love going somewhere and asking about Orda and people say, "Oh, I used to lose so much time and money and now I'm saving both." It's knowing that I'm contributing to a crucial sector of our economy. That's the part of being a business owner/operator that I love.

The second thing that brings me great joy is seeing the people I've worked with and mentored going on to start something else, building their own businesses that are adding even more value. Sometimes they ask me for support, and I help out where I can. In this way, we're collectively changing an ecosystem and empowering the next crop of entrepreneurs. I think that's very important. When you've been privileged enough to be in a position to lead, to have this sort of input and make an impact, then we all owe that responsibility. That's how I would describe it. ■

75+

languages spoken in highly multiethnic Africa, each with its own negotiation cues

Abubakar Suleiman

CEO

Sterling Bank, Nigeria

(IESE Global CEO Program 2023)



Clinton Ofoedu

(IESE PhD 2024)



BANKING WITH HEART



Sterling Bank has been named the most innovative bank in Nigeria. Although it may not be the biggest bank by assets, CEO Abubakar Suleiman is determined to make it the most disruptive and socially responsible, through an inclusive growth strategy based on five pillars: Health, Education, Agriculture, Renewable Energy and Transportation, or HEART for short.

For Clinton Ofoedu, who researches entrepreneurial growth and sustainable development in emerging economies, Sterling is a fascinating case.

In collaboration with IESE entrepreneurship professor M. Julia Prats, Ofoedu has been conducting a series of interviews with Sterling executives, partly to explore the influence of technological innovation on firm performance — the focus of his doctoral research.

Here he teases out the winning ingredients of Sterling's transformation, in which fintech plays a role. Having a corporate purpose beyond profitability, of finding sustainable and economically viable solutions for solving social problems, is what drives the bank's efforts.

Clinton Ofoedu: Banks are traditionally not known for being the most innovative or creative, and the sector is highly regulated. How have you managed to experiment within the confines of this space?

Abubakar Suleiman: Financial institutions are primarily designed to respond to the regulator, with the customer second. We wanted to change that. To innovate, we knew we had to take the process out of the traditional banking ecosystem where experimentation generally isn't encouraged.

We started by breaking down our organization, removing the hierarchy, to allow what we call *situational leadership* — that is, irrespective of your rank, the person who is interacting with the customer makes the call.

We hired new kinds of people who were open to innovation. And when we brought them in, we created spaces for them where their success wouldn't be judged by how profitable they were at growing financial services. Instead, we introduced a separate R&D budget that wasn't tied to P&L and could be written off at the end of the year.

We also created an entrepreneurs-in-residence program, to create a pipeline of young talent who, if we liked their ideas, could continue to work for us and become part owner of the project they helped create.

CO: Can you explain your HEART strategy decision?

AS: In Nigeria, the banking system is highly concentrated, with almost two-thirds of the industry controlled by a handful of banks. When I became CEO in 2018, the question I asked myself was: How do we take those banks on?

When a sector is oligopolistic, it's extremely difficult to compete in that space. As such, if growth in financial services wasn't going to be the center of our strategy, what was? Often, financial services are the last leg of a prior sequence of economic activities. But if the prior infrastructure that eventually leads to financial services isn't there (as is the case in many emerging markets), then what could we do? Rather than waiting at the bottom of the hill for the water to flow down, competing with those who have much larger balance sheets than us, we thought: Why not go to the top of the hill and address upstream challenges instead?

In deciding on Health, Education, Agriculture, Renewable Energy and Transportation (HEART) as the challenges that we, as a bank, would address, we sought sectors with massive growth potential — where there was huge demand but supply was weak or missing. We also chose sectors that accounted for a significant part of the country's GDP, so that, if we baked banking into those sectors, people would come across us one way or another.

“There are many different sectors of impact. We wanted impact sectors that would be long-term profitable”

Additionally, we went for sectors where the growth was *sustainable*. There are many different sectors of impact, but some are only profitable in the short term — you can't keep scaling in perpetuity because there's no further need to be met. We wanted impact sectors that would be long-term profitable.

CO: How do the strategy and innovation teams work?

AS: It requires internal and external scanning of the environment, with the strategy team connected to the innovation team, because we don't want a gap between strategy and implementation. At our annual retreats, we identify critical things that we think need to be fixed in order for us to create value. Then, we give the innovation team a budget to figure out what needs to be done and test out potential solutions.

For instance, we noted a gap between public and private education, with private schools outperforming the government options available in certain communities. So, we gave it to the strategy and innovation teams, and they came up with a financial product to enable access to high-quality private schools in low-income communities. That product won a community banking award.

CO: In addition to changing the culture and mindset of the bank, Sterling has been active in the fintech space. What are some innovative products that have made an impact?

AS: Digitalization has been key to our transformation. Digitalization is not just about how much technology you buy in; it's the extent to which you innovate with the technology internally.

One of the most successful products we built was an automated credit lending platform called Specta. Credit decisions used to take up to six weeks; now we can make a credit decision in as little as five minutes. We've gone from lending N5 billion to N106 billion, with lower non-repayment rates than before. The more individuals who use the platform, the more our AI algorithms learn from customers, offering a better and better service.

This led to the creation of another platform called Imperium. Once we establish the credit is good, we can connect customers with renewable energy providers and help finance the installation of solar panels, which in turn addresses the country's energy crisis.

It's thinking holistically, like this, about all the ways that banking fulfills an individual financing need while at the same time connecting consumers with a solution in Health, Education, Agriculture, Renewable Energy or Transportation, thereby stimulating economic growth, at the micro *and* macro levels.

CO: At IESE we research corporate venturing: traditional firms learning from, investing in and partnering with startups to boost their own innovation. What's your view on this practice?

AS: The standard corporate view is that the startup is out to disrupt them, so the incumbent does everything possible to frustrate the startup. They come from the perspective of the fixed pie, with everybody fighting over their piece. Banks approach



fintech startups from a position of fear: What will they do to us?

I, on the other hand, want to be part of the process and have a constructive relationship with startups. As a bank, there are some things we're better at, such as managing the regulatory side of things, because that's what we have to do and have experience doing. Many startups find themselves running into regulatory headwinds and realize they need to have a relationship with us, too. So we can work as partners. They get the benefit of the established banking business, with us taking on the R&D costs, and we reap the benefit of their innovation.

For example, through partnering with Founder Institute, we collaborated on Cafe One, a coffee shop and coworking space that supports SMEs. After talking to many SME founders, we decided to set up a venture fund to invest in SMEs, recognizing that some of the best innovations are not going to happen solely through us but depend on the existence of a wider entrepreneurial ecosystem.

It's important for us to invest in external innovation that affects our core HEART strategy. By doing so, we accelerate development in those sectors, and end up banking the new businesses in those spaces. This is the thinking for us: How do we enable external innovation that will eventually allow us to embed banking in the ecosystem?

CO: It is well-documented that regulation will condition a firm's innovation activities, for better or worse. How have you navigated this?

AS: A central bank director made an eye-opening comment: "We don't regulate technology." By this, he meant it's the risks associated with your product that require regulation: Is the technology secure? Does it meet certain standards? Are the customers protected? That's an important distinction, which informs how we go about investing in technology.

We also try to be innovative in areas where the government is looking for help or support. It was during the COVID-19 pandemic when we really won the heart of the regulator. As healthcare financing was one of our HEART pillars, we immediately understood there were going to be challenges that the government might not be prepared for. So, we assembled our health tech partners and built a

With a median age of 25, Africa has the youngest population in the world.

42% projected growth of 15-24 year old population by 2030

57%
unbanked or underbanked population in sub-Saharan Africa

70%
of Nigerian customers used their mobile banking app at least once a week in 2023 (compared with 55% in 2022)

25%
mobile internet penetration in sub-Saharan Africa, although Africa is home to nearly half the world's mobile money customers

4.5
bank branches per 100k people (compared with 28.3 bank branches per 100k in U.S.)

platform to verify proof of vaccination for safe travel, initially for the Lagos state government but eventually the rest of the country signed up to it. That kind of community service, working with the regulators rather than trying to get around them, made people more open to what else we could offer.

CO: In Africa, as in many other parts of the world, firms are facing a war for talent, as young, highly qualified, in-demand professionals are being lured to work elsewhere. You talked about the need to bring in fresh profiles to help drive your innovation efforts. How do you avoid brain drain and attract the right talent you need to be successful?

AS: The key is to find the nexus between impact and business. A lot of young people are impact-focused; many want to go work for NGOs. Our job is to convince them that they can have as much of an impact, if not more of an impact, working for us as working for the United Nations.

We don't need a lot of money to have an impact and get returns on our investments, which in turn attracts even more investments. People see that, and they may be willing to earn less money knowing they are working on something bigger than "just doing a job." I have executive directors working for me who have turned down the chance to be CEOs of other companies.

We have found a common purpose that we — our bank staff and stakeholders — all deeply care about. We offer our employees shares in the bank, so in addition to their pay, they become equity holders. We are also trying to build a larger campus to train the next generation, developing a pool of talent larger than what we currently need. In this way, we make sure to retain enough talent to keep our business going.

“The key is to find the nexus between impact and business”

CO: What is your perspective on the role of the private sector in promoting inclusive growth in Africa?

AS: One of our core values is “the success of one is the success of all,” and in many ways that encapsulates our business philosophy. It means that if you're lucky enough to hold a senior role in a significant company in Africa, you have an obligation beyond making money, which is to make a positive impact. And that impact isn't just about one company; it's about the society we live in and what we can do for it.

We see ourselves as a private sector partner for people who are looking to fix social problems — to contribute sustainable and economically viable solutions across critical sectors in the economy. This is not charity. Rather, it is our conviction that business, as a key institutional pillar of society, must play its part in building that society. So, if we aim to build a world-class institution in Africa, it means we are socially conscious around Africa and will do everything we can around African themes and African problems.

My passion is not only for Nigeria but also for the continent. This passion drives me, of course, to think about how to make Sterling Bank into a leading financial institution. But it also drives me to help Nigeria become a country to be reckoned with, and to help lift up Africa so we can take our rightful place in the world. I am incredibly passionate about fighting for that. ■



Resilient adaptation is our best asset

Alejandro Lago

Professor in the Operations, Information & Technology Department at IESE and former director of IESE's Africa Initiative.

Every time I think about the African business landscape, I cannot help but repeat this sentence by Mo Ibrahim, one of Africa's most successful entrepreneurs: "Opportunity is where perception is worse than reality." This motivated me to go to Africa as a business professor and expose our MBA students to the abundant opportunities hidden beneath prevalent prejudices.

Throughout the interviews of this report, some common threads emerge, many of which match my own experiences of the continent. Here are my observations, viewed through my non-African lens, which may be useful to other non-African business people. The following lessons have universal application.

REALISTIC OPTIMISM. Boundless optimism and drive are palpable among all the executives and entrepreneurs featured

in this report. I have witnessed this myself in Nigeria, East Africa and Ivory Coast. And a recent study by my IESE colleague, Anneloes Raes, confirms that an "optimistic and enthusiastic outlook, despite pressures," drives South Africa's top management teams as well.

Steady economic growth and improved political conditions over the past two decades have fueled this optimism. So has



IESE MBA students from the Class of 2022 at Strathmore University Business School in Nairobi, Kenya, for the module “Doing Business in Africa,” currently led by IESE professor Heinrich Liechtenstein.

greenfield development, with the introduction of vital services that were previously lacking or nonexistent. Sterling Bank’s pivot into Health, Education, Agriculture, Renewable Energy and Transportation (HEART) attests to this strategy of pursuing “sectors with massive growth potential — where there was huge demand but supply was weak or missing.”

Despite the optimism, no one is under any illusion that success is easy; it demands patience and time. Time to learn and evaluate the risks on the ground (this is the “de-risk up front” of Sameh Shenouda). Time to test and re-evaluate your ideas (“Your customer may not be your customer,” says Peter Nyeko). And time to build relationships of trust, which are important not only for doing business in Africa but, as

Trust is important not only in Africa but for the global economy

Jordi Gual explains later in this magazine, for the healthy functioning of the global economy.

AFFORDABILITY IS KEY TO GAINING SCALE. Our report also makes it clear that rethinking the value and affordability of your offerings is key to achieving growth. Many Western companies have been misled by consultants’ glorified claims of Africa’s burgeoning middle class. While you can find Western-like middle-class niches in cities such as Johannesburg, Lagos and Nairobi, the vast majority of Africa’s opportunities lie with large populations who have limited disposable income, making them careful about their spending and discerning of the quality they receive. Such are AFEX’s smallholder farmers, who must “optimize revenue within the resources available.” Or certain customer segments of Discovery Health, who don’t have health insurance but with prepaid healthcare vouchers can get their basic needs covered at an affordable cost.

In the past, the shortcut was to offer low-quality products or use the sachet trick — that is, providing single-use doses of a product at supposedly affordable prices. Now, companies with a more mindful strategy leverage data and use clever financing mechanisms that work to the benefit of consumers as well. I am reminded of the fintech M-KOPA, providing autonomous solar-fed lighting systems using a pay-as-you-go

model. It is another worthy example of an African company that has used clever financing mechanisms to reach a broader base of consumers. Its business model has been tested and deployed in Latin America, a region that shares many traits with Africa's base-of-the-pyramid markets. In my role as a board member of a microcredit financial institution, I have repeatedly encouraged the company to apply some of the strategies of Compartamos Bank in Mexico to the Kenyan reality. There is a lot we can learn from each other if we think creatively about how these novel business models can be applied in our own market settings.

DIGITAL ECOSYSTEMS ALSO NEED PHYSICAL OPERATIONS.

Digital technologies, including mobile networks and peer-to-peer payment systems such as Airtel and M-PESA, have catalyzed access to African consumers and markets. As well-known as these stories are, less talked about are how these largely atomized and unstructured ecosystems need a traditional operational backbone to be sustainable. A good number of the businesses mentioned in this report — AFEX, Discovery Health, Orda, Jumia — have leveraged technology to create new platforms that intermediate between consumers and producers. But digital connectivity is only one of the enablers. What makes the real difference is how companies are combining digital technologies with operational resources to provide logistics, power supplies or healthcare. *That* creates real sustainable value. As the former CEO for Africa of a well-established multinational once told me, offering this *extended operational perimeter* is a must.

A SOCIAL LICENSE TO OPERATE. Understanding local cultures, nurturing personal relationships and earning a social license to operate are quintessential to any business environment, but they are especially relevant in the African context. Kinship, a sense of belonging and the moral need to care for one's community can sometimes count for more than speed or riches. And trust, built

through personal interactions, plays a key role in these economies long characterized by informal transactions and a weak rule of law.

It is curious to see how some interviewees shy away from using labels such as Africapitalism, perhaps because the imperative to make a positive social impact is so deeply ingrained in their concept of doing business that it goes without saying. This should serve as a wake-up call to many Western executives. To what extent do you devote time to nurturing relationships of trust with your business partners and other stakeholders that go beyond pure economic exchanges? My advice, relevant in Africa as elsewhere, is to listen to your partners and local communities before you act. Put in your own time and effort before asking the same of others.

A final comment: We are all now living in complex times, impacted by energy and supply scarcities, geopolitics and war. This complexity may be uncomfortably new to many of us. Thankfully, we can take inspiration from African business leaders who have been trained in such complexity and who know how to turn challenges into opportunities. We all need to take Ayodeji Balogun's words to heart: develop resilience, show empathy, play the long game, and do it in a way that puts humanity first. These will be our greatest assets going forward. ■

MORE INFO: The case studies "M-PESA: Mobile Banking in Kenya" and "Equitel: The Battle for Mobile Money in Kenya," by Alejandro Lago and co-authors, as well as "Savannah Discovery Kenya: Doing Well to Do Good," by Heinrich Liechtenstein and co-authors, are available from IESE Publishing at www.iesepublishing.com.



THE BIG PICTURE

Is greedflation to blame?

Why do prices stay high, even though COVID-19 supply-chain disruptions have disappeared? Are businesses maintaining price hikes to boost their profits? **A study of the effects of pandemic-induced supply-chain pressures on inflation in the eurozone reveals a more nuanced picture.**

2020 SUPPLY-CHAIN CONSTRAINTS PUSH COSTS UP

In the early days of the pandemic, everyone scrambled to buy toilet paper. There was panic because consumer goods weren't arriving at the same rate as before.

When demand is high but supplies are low, costs go up: that's the law of supply and demand.


2021 RISE IN INFLATION EXPECTATIONS

Central banks initially tolerated elevated inflation under the assumption that supply shocks were temporary. But that logic only works if household inflation expectations remain "anchored" and thereby pull back inflation to target levels after a short period of time.

In reality, once consumers experienced higher prices and observed news coverage about supply shocks, their inflation expectations also started to rise and remained elevated even after supply-chain disruptions eased.



Yikes! Better stock up — at any price!



Everything is more expensive. But that's to be expected.

2022

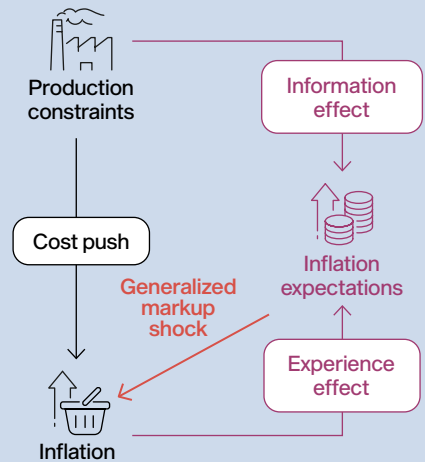
INFLATION BECOMES BROAD-BASED

Heightened inflation expectations, higher aggregate cost and price uncertainty can result in consumers becoming less informed about the distribution of prices across firms and products. Producers can "hide" behind aggregate cost and inflationary noise to maintain, or even increase, their markups without risking a considerable decline in sales. This dynamic results in generalized inflation, even affecting sectors that weren't originally impacted.

WHY DO PRICES STAY HIGH? IT'S COMPLICATED...

Localized supply shocks can generalize into broad-based inflation expectations, disproportionately and persistently driving up actual inflation.

Such generalization can be further exacerbated by firms with pricing power (meaning they have few competitors). They can maintain their profit margins without losing sales.



WHAT CAN BE DONE?



Central banks: Work to tame household expectations to avoid intertwined inflationary pressures. Transparent communication can help prevent high inflation from becoming a self-fulfilling prophecy.



Promote competition to curb the inflationary tendencies of dominant market players with pricing power, though bear in mind that limiting price markups could have negative mid- to long-term consequences on inflation.



Policymakers: Adjust monetary policy quickly if inflation expectations show signs of becoming unanchored.

Guess this is what things cost now.

2024 PRICES STAY HIGH

New expectations have been set. And inflation endures.



SOURCE: "How do supply shocks to inflation generalize? Evidence from the pandemic era in Europe" by Viral V. Acharya (NYU Stern), Matteo Crosignani (Federal Reserve Bank of New York), Tim Eisner (Nova School of Business and Economics) and Christian Eufinger (IESE Business School). National Bureau of Economic Research (2023). <https://www.nber.org/papers/w31790>

AI and the future of work

Although the true impact of artificial intelligence (AI) on business is uncertain, one thing is clear: companies stand to enjoy big productivity bumps — if they thoughtfully harness AI's potential in their people management.

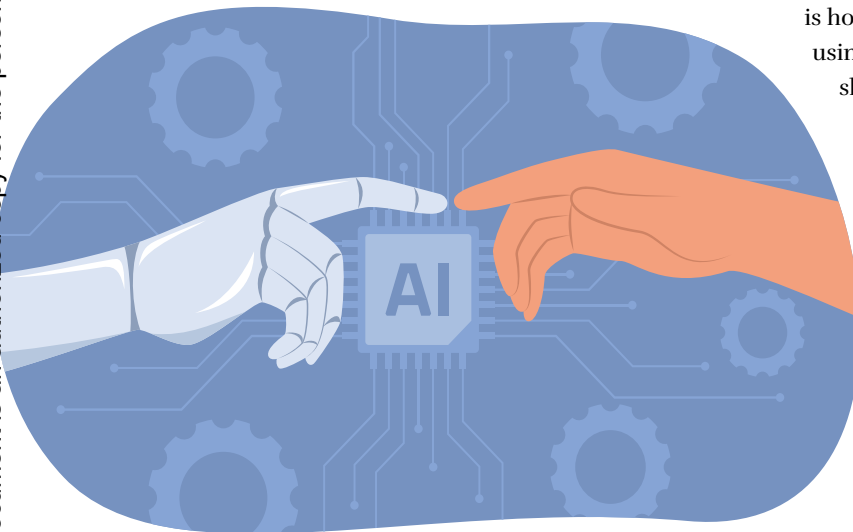
Time it right. When it comes to AI adaptation, the biggest risks are moving too early and finding yourself stuck with quickly dated technology, or else losing irretrievable ground to competitors after acting too late. Finding the sweet spot will pay off handsomely (albeit easier said than done).

Interview differently. HR pros have noticed a shift in candidates' interview questions. Once primarily concerned with money and advancement opportunities, potential hires are now asking about high-quality technology training. Young hires also expect less grunt work and more engaging responsibilities from day one.

Train wisely. It's important to teach employees not just how to use an AI tool but how it works. This reduces liability and risk, while also helping them be creative and find new ways to use the tools. Another thing to consider is how AI affects learning on the job. The upside is using time previously spent on busy work to build new skills. A danger is younger employees assuming that machines will instantly provide every solution.

Reward accordingly. AI and other digital innovations have been widely praised for improving feedback and assessment processes that even the finest managers long grumbled about. Another novelty involves compensation. In order to incentivize tech adaptation, a growing number of companies are including employees' technology training and implementation in the consideration of year-end bonuses.

Retain the human touch. AI hasn't eliminated the need for human collaboration, good old-fashioned brainwork or, to the dismay of some, public speaking. Make sure not to throw out everything old as you bring in the new. Think of AI as having a co-pilot, but you, the human expert, remain in charge.



Sampsa Samila

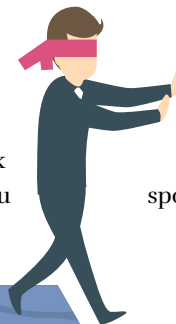
Director of the Artificial Intelligence and the Future of Management Initiative
<https://bit.ly/3v8AuRR>

Risky business

Consider two jobs: one at a traditional company and one at a startup. For most people, the startup seems the riskier option, one that a risk seeker would take, while someone risk averse would opt for the stable firm. Yet the safe option may, in fact, be risky, and vice versa, depending on how you perceive it. For someone with an entrepreneurial mindset, the startup is the better bet. When uncertainty is

the norm in a decision-maker's life, it's the "safe" bet that starts to look, counterintuitively, risky. Generally, if your reference points are people who all work in one type of firm, then you'll view the opposite type as riskier. What's your default setting? Knowing this will help you see whether the risk is real or whether it's how you

are framing it. As risk appetite forms part of any decision-making process, it's useful to consider what's informing your perceptions before making any major decisions. Consult others to see if their perceptions of the risks involved align with yours. It may help you spot previously unforeseen opportunities — as well as help you see risky blind spots before you make a costly error.



Johannes Müller-Trede et al.

"Risky sure things," *Management Science*
<https://doi.org/10.1287/mnsc.2022.4590>

When higher bids result in lower revenue

Companies engage in auctions all the time, bidding for everything from broadcasting licenses to cell-phone services. Granted, there are transaction costs of time and human resources in deciding how much to bid and submitting offers and counteroffers over various rounds. When these costs are high, bidders may resort to a tactic known as "jump bidding." This is when a bidder ups their offer dramatically instead of incrementally in so-called "English auctions" where multiple bidders interact. This sends a message to the other bidders that "I know something you don't" so the competition, feeling intimidated, drops out. Consequently, the auction ends early, saving costly further rounds. However, when transaction costs are low — as in auctions to sell online



advertising space, where AI is used to speed the rounds — jump bidding can be less desirable for the seller. Escalating the bid to freeze out competitors and end the auction early results in lower revenue. As such, government entities, in particular, should ban jump bidding from their auctions and encourage as much competition as possible. This prevents bidders from gaming the system, resulting in greater revenue for the seller.



Hester Zhang

"Jump bidding as a signaling game"
<https://bit.ly/439id3u>

“Always
keep
learning”

Sylvie Nicol
Executive Vice President
Human Resources,
Infrastructure & Sustainability
Henkel





Sylvie Nicol started out in the marketing department at Henkel in her home country of France, figuring she would spend her career working in marketing. But when the opportunity arose to become sales director, she found she loved that role even more. “The chance to drive business and financial responsibility, as well as head a big team, was really fulfilling,” she says. “Yet I always felt there was more I could do that would be in sync with my own purpose of working with people.”

Luckily, Henkel has a strong corporate culture of recognizing talent and developing its people, so when Nicol pushed in the direction of human resources, she was supported in making that move, which included relocating from France to Düsseldorf, where the German chemical and consumer goods company has its global headquarters.

Hers may not be the traditional career path, “but it was my dream and I was given an opportunity to pursue it,” she says happily. “Pioneers at heart for the good of generations” is both Henkel’s purpose statement as well as being the subject of her talk at IESE’s Global Alumni Reunion on Elevated Entrepreneurship. Here, she reflects on the importance of having an entrepreneurial corporate culture, underpinned by a deep sense of purpose, which has — unusually in this volatile, job-hopping market — carried her through three decades at the same company.

How did you come to see human resources as your dream job?

I began to lead larger and larger teams of people. And when you scale up teams, you learn more about leadership. The more I learned, the more passionate

I became about recruiting, training and coaching, but also about the impact that such leadership can have on an organization, in terms of big topics such as diversity and sustainability. I realized how much you can change things, although not all leaders do. I wanted to be one of the leaders who did.

There's a lot of talk nowadays about purposeful leadership. What does this mean to you?

It can be a bit of a buzzword, but in its essence I believe it means that leadership is not only about *what* you know or do, but *how* you do it. How you guide the organization. How inspiring you are. How aware you are of the world around you. How open to new generations and expectations. How self-reflective you are. How you deal with setbacks. How

vulnerable you are. All of these elements take up more space in leadership today. And it's about learning. When it comes to leading individuals, you need to be in a permanent process of learning.

How has being a member of the executive board affected the kind of impact you can have?

I feel like I'm in the right place, doing the right thing, and able to really help drive the strategy of the company forward, in the right direction. And as we pursue our obligations to be competitive, we are clear that sustainability matters. We hold these two realities together by keeping innovation constantly alive.

Innovation doesn't just mean new or improved products; it's the processes that drive the business. For example, we offer end-to-end analyses of the carbon footprints, not only of the elements used in our products, but also of the households using our products: that, too, is innovation. Innovation lies not only in what we will launch onto the market next week, but in deciding which ideas we will drive forward, and how.

What else should all companies have on their agenda right now?

Generative AI is on everyone's lips. While I'm not convinced that GenAI will take people's jobs, I do believe that people who don't adapt to it are in danger of losing out, which is a different way to think about upskilling and learning. We need to accept that the biggest technological revolution we have ever seen is here to stay, and educate ourselves. Related to this is a large-scale project we're pursuing: company-wide digitalization. It's what we call an unavoidable opportunity.

In terms of the HR function, AI can certainly help us get better and more efficient at processing data. For example, we receive 800,000 resumes globally every year, and AI can be leveraged to review candidates much faster.

The other aspect is digitalizing the workforce more generally and guaranteeing everyone access to digital information. For a company like ours, with thousands of our workforce in factories rather than offices, this is an important task.



“Never underestimate the quality of the people you have in your company”

Do you find employees receptive to training or is there fear and resistance?

A few years ago, we conducted a big digital assessment across the entire company. Since then, we have been providing training across different functions and divisions. At the beginning, there were some fears. People can feel a bit ridiculous at times, a bit out of date.

I experienced this myself with something as simple as Instagram. I wasn't an early adopter, but then it became important for my work. The difficulty with adapting to a new technology is that you feel like the one person who doesn't know, which then makes you feel isolated. So often, people are afraid simply because they imagine something is terribly complex — more complex than it actually is.

Needless to say, I learned to use Instagram. Equally, the experience taught me something important about the learning process itself: Digitalization drives within companies should be about helping people get acquainted with the new technology and lowering barriers. People are smart. They'll figure it out if you remove the fear factor and show them how it will help them to do their jobs even better.

What is another key challenge in HR?

Working and leading across generations. This requires really understanding what managers and employees want, what motivates them, which may be different from what motivated you.

For example, the very concept of growth. For my generation, growth at work was vertical — it meant getting more responsibilities and more recognition. For Gen Z (born between 1997 and 2012, so those in their 20s or about to enter the workforce), growth means something completely different: experiences, and the ability to do things through their work that they might not otherwise be able to do.

A lot of misunderstandings can arise if older managers are asked to facilitate opportunities for their Gen Z staff that they never thought about or ever considered desirable. We see this regularly in our China operations, where Gen Z make up a quarter of the workforce. It takes understanding and strategy to bridge these gaps.

Do you have a role model for what you hope to be in terms of leadership?

I would have to say my father. Our careers are vastly different but he always believed in sticking to your values and being able to look yourself in the mirror after any decision you make; being true to yourself and stepping back when you can't be. This attitude has shaped me significantly.

So your final words of advice would be to embrace change while always staying true to what you believe in?

Absolutely! And always keep learning. Remember that your company is full of experts in their respective fields. For anything that you are trying to implement — sustainability, for instance — there may well be people around you who have been working for years on the very same issue that you are now trying to bring to the surface. Never underestimate the quality of the people you have in your company. Find ways to make them visible, and help them to drive progress for the company and for society as a whole. ■

In 2024 IESE marks 25 years partnering with Henkel on Custom Programs for Senior Executives, with a special celebration in Düsseldorf. To find out about the many ways IESE collaborates with leading global organizations to deliver transformational learning journeys tailored to their business leaders' needs, go to www.iese.edu/custom

Everything revolves around people

The first woman in her family to pursue an MBA, Camila Escalante follows in her family's entrepreneurial footsteps, aspiring to lead the sustainable growth and internationalization of her Peruvian family business.

Six years before she was born, Camila Escalante's mother, Luciana D'Angelo, launched her own dairy business, Delice, in 1990. Today, the company has more than 150 employees and is Peru's leading maker and exporter of cream cheese products.

Although she grew up with the family business, Escalante had a different career in mind for herself in corporate finance. "Delice was a small, artisanal company, managed in a very traditional way. I didn't see myself going down that path," she says.

After graduating with a degree in economics from the University of the Pacific in Lima, she began working at Ataria, a venture capital firm for early-stage startups in Peru. With a management team of just five people — two of which were women — Escalante got her first taste of the world of venture capital.

Triple tsunami

This continued until the pandemic hit in 2020. It was a period she describes as a "triple tsunami." Alongside the personal restrictions imposed by COVID-19 lockdowns, Escalante's family business had to deal with operational and supply-chain difficulties. As if that weren't enough, Peru went through a period of political and social turmoil, further complicating the collection and distribution of the fresh milk on which Delice's entire business depended.

Given that her mother had always been her role model for hard work and resilience, Escalante was quick to lend a hand. She got involved in the purchasing side of things, managing the daily procurement of some 50,000 liters of fresh milk to supply their production line.

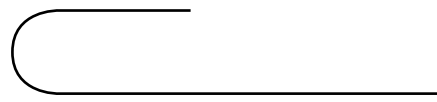
"That's when I truly understood how all the different areas of a business relate to each other," she says.



CREDIT: Roger Rovira

Camila Escalante

Recipient of the Forté Fellowship, for women exhibiting exemplary leadership, and an IESE Excellence Scholarship, for outstanding achievement, personal merit and strong fit with IESE's values. IESE MBA 2025.





“I had studied economics and was very good with numbers and finance, but until then I had never seen a business operate in real life.”

Today, she can proudly say that she has contributed to Delice’s transformation and growth. She adapted the recipes to be healthier (lower sodium, sugar and fat) and more sustainable (eliminating GMO ingredients). The new cream cheese recipe will reduce costs by an estimated 7%. In addition, she implemented a variable compensation scheme to boost employee motivation and give team members a greater sense of ownership and commitment.

It was this defining experience at Delice that made her decide to go and get an MBA to broaden her management skills and acquire a global perspective on business operations. She now sees her professional future linked to Delice in some way.

An unprecedented opportunity

In choosing between a U.S. or European business school, what eventually sold her on the latter was Europe’s cultural and national diversity. In terms of IESE specifically, “it helped that it has a significant community of Latin American students.” As such, Escalante sees promising opportunities for building

a strong network across Latin America, helping to expand and consolidate Delice’s market presence in the region. IESE’s focus on people clinched her choice: “It’s something you can feel in the atmosphere,” she says.

Escalante feels fortunate and grateful to be a scholarship recipient of the IESE International Foundation. As the first woman in her family to pursue an MBA, she feels “immense joy and pride to represent both my country, Peru, and the aspirations of first-generation MBA students like me at IESE.”

She describes her experience on the Barcelona campus as an endless stream of stimulation, and she transfers her learnings to Delice through regular online meetings with the company back home.

She has wasted no time in getting involved in various student-run organizations — from the Women in Business Club to the Family Business Club (naturally) but also the Mental Health and Wellbeing Club, helping others thrive amid the stresses of life (the subject of her undergraduate thesis was the effect of the mother’s mental health on children’s emotional and cognitive development). She also finds time to visit supplier factories and attend trade fairs related to her sector.

Growth rooted in a social mission

Since 2020, Delice has tripled its sales, expanded its product lines, and added Colombia as another export market on top of its established presence in Chile. Delice’s commitment to sustainability involves advancing the use of eco-friendly and mono-material packaging that facilitates recycling, and establishing long-term business relationships with suppliers: “When we grow, they grow with us,” she says.

Escalante is determined to take the family business to another level: “In helping to make the company grow, I want us to consider how each step we take will affect others: the community, the workers, the consumers and other stakeholders. In the end, everything revolves around people.” ■

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Scholarship Fund

MBA Class of 2025 scholarship recipients

Forging a global pipeline of leaders

An organization is as strong as its people. At IESE, we strive to attract the **world's best students and scholars** with outstanding academic credentials, intellectual curiosity and a passion for driving positive change.

When you support the IESE Scholarship Fund, you help finance need- and merit-based scholarships for stellar **MBA, MiM and PhD students**, as well as multi-year development plans for premier global scholars.

We actively recruit talent from emerging economies, inspiring scholarship beneficiaries to share their IESE knowledge and advance prosperity and job creation in their countries of origin.

Help us forge a global leadership pipeline by contributing to the IESE Scholarship Fund today:



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The Scoolinary team (left to right):
Vicente Fortea (production director), María Parareda
(director of content), Martin Caleau (director of
technology), Lorena Hidalgo (director of marketing &
communication) and Jordi Ber (CEO).
www.scoolinary.com



A recipe for bringing people together

Five entrepreneurs have turned their passion for gastronomy into Scoolinary, the world's largest online cooking school.

It has been said, “Cooking is the alchemy of love.” In 2020, that alchemy came together in the form of Scoolinary, an online cooking school now adding one new course per week to its growing catalog of more than 300 courses, with 6,500 lessons, 550 hours of video and 2,000 recipes and counting.

Scoolinary was conceived in the midst of the COVID-19 pandemic, when half the planet was locked down at home. A lot of people suddenly decided to try their hand at cooking all kinds of new recipes, watching video tutorials online. Remember the global craze for bread baking?

At the time, serial entrepreneur Jordi Ber was looking to create “a purpose-driven, global, scalable project aimed at people accustomed to working with their hands.” In that moment, his business vision found its focus: cooking.

The right ingredients

To turn the idea into reality, Ber knew he needed to gather the right ingredients. He tapped Maria Parareda, founder of Creative Signatures, another startup related to online cooking classes. She joined as content director. Mutual friends put him

in touch with Lorena Hidalgo, a skilled marketer and cook, and Vicente Fortea, a chef and gastronomy consultant. They became key members of the team. For tech expertise, Ber recruited a former colleague, Martin Caleau, with whom he had launched Habitissimo in 2009, a platform for finding home tradespeople.

The goal was for “one plus one to equal three,” says Ber. Although each resided in different parts of Spain — Madrid, Barcelona and Palma de Mallorca — the team had no problem organizing themselves remotely.

“We wanted to leverage our individual expertise and backgrounds to cover all the main pillars of the business,” says Parareda. “Although not all of us knew each other personally, our extensive experience in the field allowed us to work well together.”

For financing, they used some of their own savings, but this wouldn't be enough to create all the quality content they needed. On top of their own funds, they secured investments from business angels and venture capitalists. And they obtained a loan from Enisa, the Spanish government body dedicated to supporting entrepreneurial endeavors.

Scaling the business

Scolinary has amassed 28,000 paying users — a figure in line with the team’s growth expectations to date. Users are able to take their passion for gastronomy to a whole other level under the guidance of chefs who are internationally renowned, Michelin-starred and/or listed in The World’s 50 Best Restaurants ranking. For example, users can learn to cook shellfish with Spanish chef Paco Perez; create technically precise dishes and aesthetically beautiful plating with Manhattan-based Australian chef Shaun Hergatt; or delve into the world of spices with Anjalina Chugani, a specialist in Indian cuisine.

The team’s initial plan was to provide a training tool for the hospitality industry. “But we soon realized there was a great deal of interest from foodies and cooking enthusiasts in general, both from amateurs as well as knowledgeable chefs,” says Hidalgo. Pivoting in this direction has allowed them to achieve continuous growth.

Scolinary has gone from being available only in Spanish to operating in other languages. “From the beginning, we were clear that we had to be able to internationalize the project,” says Caleau.

Artificial intelligence has been key to their scalability, allowing automatic subtitling and dubbing

into other languages. Natural language processing enables AI assistants to answer queries or provide 24-hour assistance.

The power of tech

The pervasiveness of digitalization in society works in their favor. In addition to new AI tools helping to generate content, streaming platforms like Netflix have demonstrated the viability of subscription-based business models. Social media channels like Instagram have made haute cuisine go mainstream, spawning the phrase “phone eats first.”

Ber cites the Basque Culinary Center (BCC) as an example of “the democratizing power of technology.” Located in the northern region of Spain famous for its gastronomy, BCC is a nonprofit foundation that receives corporate sponsorship so they can offer courses, conferences and collaborate on culinary innovation projects and do research on gastronomy and nutrition. With the addition of an online component, people can now access training from wherever they are for as little as 6 euros a month, as opposed to attending in-person courses costing thousands of euros.

As tech accelerates content production and specialist knowledge becomes more universally available, the curation of content becomes paramount, so they can deliver content that is ever more relevant and accessible to users.

In the medium term, they expect to continue growing in the markets where they are already present, particularly in the Spanish- and English-speaking ones. “We will keep investing in the product, working hand-in-hand with the best to produce more and more content on global cuisine,” says Caleau. They also plan on increasing the experiences they offer, such as awarding qualifications, as they cultivate an ever more culturally diverse community united by cooking.

**Artificial intelligence
has been key to
scalability and
accelerating
content production**



Learning to be leaders

The five Scoolinary partners are currently participating in the School of Founders, which IESE launched in 2022 to equip entrepreneurs with the skills, knowledge and mindsets they need to transform their startups into large, purpose-driven companies. For Ber, it's "an opportunity to improve as leaders, spend time together and grow as a group." He considers such training to be vital, since "one isn't born an entrepreneur but it's something that can be learned."

Fortea highlights how enriching it has been for him "to learn from other business experiences and discover that other entrepreneurs from diverse sectors have faced many of the same challenges that a project like ours entails."

The five teammates share a vision of conscious capitalism, as advocated by the School of Founders' Director Sebastian Ross. In this sense, they try to amplify the voices of marginalized professionals in the hospitality sector, and they plan to offer scholarships for training. In addition, they donate a percentage of sales to initiatives that mitigate climate change, acknowledging the impact of food production and food waste on the planet. Scoolinary has obtained B Corp certification verifying the company is meeting high standards of performance, accountability and transparency.

"We believe the creation of companies and jobs should generate wealth but also make a positive contribution to society," says Ber. A healthy recipe for doing business today. ■

Scale your startup!

Applications are now open for the IESE School of Founders' next Foundations of Scaling program, starting in October 2024. Go to <https://bit.ly/3TONlWg>

SMART PICKS

Food for thought



Humanize your management

There are few better ways of getting liberal arts majors up to speed on matters of business than an MBA, wrote IESE's Mike Rosenberg in a 2017 article on preparing people for geopolitical realities. But he was quick to add that the flip side is also true: There are few better ways of preparing MBAs for the complexities of running an international business than exposing them to liberal arts, including history and philosophy. Some might contend that the issues we face today differ significantly from those confronted by the likes of Plato or Aristotle. Or maybe not. Humanity faces the same fundamental questions that philosophers and artists have struggled with throughout history. We can learn a lot from the humanities: art and design; language and literature; and music, whether opera, classical or jazz. In a world where it can feel like we are at risk of losing our humanity, now is the time to complement your management with the humanities. Let these resources enrich your view of the world.

Classical music *Sampsa Samila*

If I had to choose, it would be Beethoven's Symphonies #5 & #7 by Carlos Kleiber and the Vienna Philharmonic Orchestra, as proof of how listening to classical music can elevate the human spirit. Current music production is filled with a lot of noise, making it hard to separate out what is really good and valuable. Music that is listened to after decades or centuries is truly exceptional — so exceptional, in fact, that it's worth learning to appreciate it, even if it appears alien at first. The same applies to other art forms like literature, paintings and architecture: these can be appreciated for the rest of your life. The expected lifetime of a work of art is proportional to its age — i.e., artworks that have been appreciated for a long time are more likely to be appreciated in the future than more recent works. Time is a filter for noise. Classical music contains the entire world of human experience — from intimate solo works to large orchestral pieces; from the sacred to the profane; from great sadness (Mahler's *Kindertotenlieder* or *Songs on the Death of Children*) to great joy (Beethoven's #9). Visit the IESE Spotify playlist at <https://bit.ly/3w6lNPJ> for more classical music recommendations. It's important to pay attention not only to the work itself but also to the specific performance.



Sagrada Familia

Barcelona's emblematic basilica, under construction since 1882, is due to become the world's tallest church with the completion of the Jesus Christ tower in 2026. It is the perfect example of the realization of a long-term vision — in this case, that of the humble Catalan architect Antoni Gaudí, who drew inspiration from his everyday surroundings and nature for his innovative designs. The Sagrada Familia demonstrates how visionary leadership can find the extraordinary in the ordinary, inspiring new generations to accomplish feats they never thought possible before. Read "Innovative spirit: lessons in leadership from the Sagrada Familia" at <https://bit.ly/3PLbFCK>

The extravagance of opera

Javier Zamora



Managing requires a holistic conception.

Today there is super specialization, which provides focus but distances us from contextualization. We need perspective, and the humanities provide it. In this sense, opera is the most complete and enriching art: it amalgamates music, theater and dance. It is a unique experience that touches the soul, an extravagant art that combines different elements to achieve a unique objective: the sublimation of the viewer. Listening to *The Ring of the Nibelung* by Richard Wagner — four operas that delve into the human condition, power, sacrifice and redemption — will help you reflect on the exercise of power and the consequences of not making good use of it. Upcoming Wagner performances in Europe:

- *Three Ring Cycles* at the Deutsche Oper Berlin between May 11 and June 2, 2024
- *The Valkyrie Concert* at the Grand Teatre del Liceu in Barcelona on June 27, 2024



Novel solutions

“Fiction and the humanities are absolutely relevant to business,” insists the author and professor Keith Oatley, who has studied the effects of reading fiction on cognitive processes. In an article from *IESE Insight* magazine, Oatley cites research supporting the reading of literature as a means of helping you become a better person and a better leader. “If it’s important for you to understand other people and yourself as part of your job in business, then (reading literary fiction) is actually a very good way of doing it.” Read “The reality of fiction” at <https://bit.ly/3THBF31> or better yet, read a (non-management) book.

FROM MY DESK

By Marc Badia & Júlia Gifra



The beauty of humanities

At IESE, ethics and a human-centric approach to business have been integral to our founding mission of developing leaders with professional excellence, integrity and a spirit of service. As such, we recognize the need to foster a deeper understanding of the world and human nature by incorporating more humanities content in our MBA program. We aim to create more spaces for contemplating enduring questions related to life-purpose and societal justice as part of our management education. In a polarized world, we need to educate wise leaders with the ability to bridge divides and foster a common understanding. Humanities contribute to this education, leading our students to the discovery of universal human values, the appreciation of human dignity and the nobility of spirit.

As digital technologies and AI pervade every area of our modern world, the trend in higher education has been toward more technical specializations. Yet the answers to contemporary concerns aren’t only to be found in data-based science and technology. Existential questions about human identity, human aspirations and human flourishing require more human thought and reflection.

Management is about bringing different people together to achieve a common goal. Science and technology may offer answers to the what and how but not to the why, which ultimately is the source of meaning and inspiration for people. Any attempt to reduce human nature and relationships to a deterministic materialism is bound to fail. It is precisely for this reason that the humanities become more relevant than ever. The humanities enrich management education, helping leaders to think more critically, creatively and comprehensively in today’s increasingly complex, ever-changing world.

In addition to the Christian humanism that underpins our teaching, our programs are enhanced with a variety of electives and extracurricular activities designed to expand the capacities of our students. A recent example is a series on “The Appreciation of Beauty,” considering beauty as a transcendent, motivating force capable of inspiring ideals and positively shaping the world for the better.

The transcendence of beauty offers a glimmer of hope to comprehend reality. Beauty — whether the inner radiance that emanates from our souls or outward expressions through art, literature, music and architecture — is a universal longing that resides within each and every human being. It’s a lens through which we perceive reality; it’s a means of expression, a conversation we have with ourselves and the world. And those messages convey values that can uplift and inspire people, providing meaning and purpose, and overcoming the pragmatic spirit that judges others based on their utility to us.

Our holistic program is oriented toward building greater self-awareness, preparing leaders for the challenges they will face, not only out in the business world, but also deep within themselves as they assume responsible roles in society. Let your own journey into the humanities begin.

Marc Badia is Associate Dean of the MBA and MiM programs, and Júlia Gifra is Associate Director of the MBA program, both at IESE.

Foundations of Scaling

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Grow your venture into an iconic and purpose-driven firm

If starting a company is hard, scaling it is even more demanding. Most ventures do not overcome the “entrepreneurial crisis” at the transition from startup to scaleup and end up stalling. Explicitly designed for founders of startups (of between 30 and 300 employees) in transition to scaleups, this international program (15 nationalities) gathers entrepreneurs, mentors, and world-class faculty experts, forging an invigorating learning environment.

“The FoS program has been life-changing and a true inspiration for self-growth and leadership.”

Christian Fenner, Germany (FoS-23)
Co-Founder The NU Company

Find out more at: www.iese.edu/foundations-scaling



Format:

Part-time program.
Face-to-face
and live online.



Length:

9 months. October - June.
6 residential sprints of 2.5 days,
4 online sprints of 0.5 days each.



Location:

Barcelona, Madrid
and Munich.



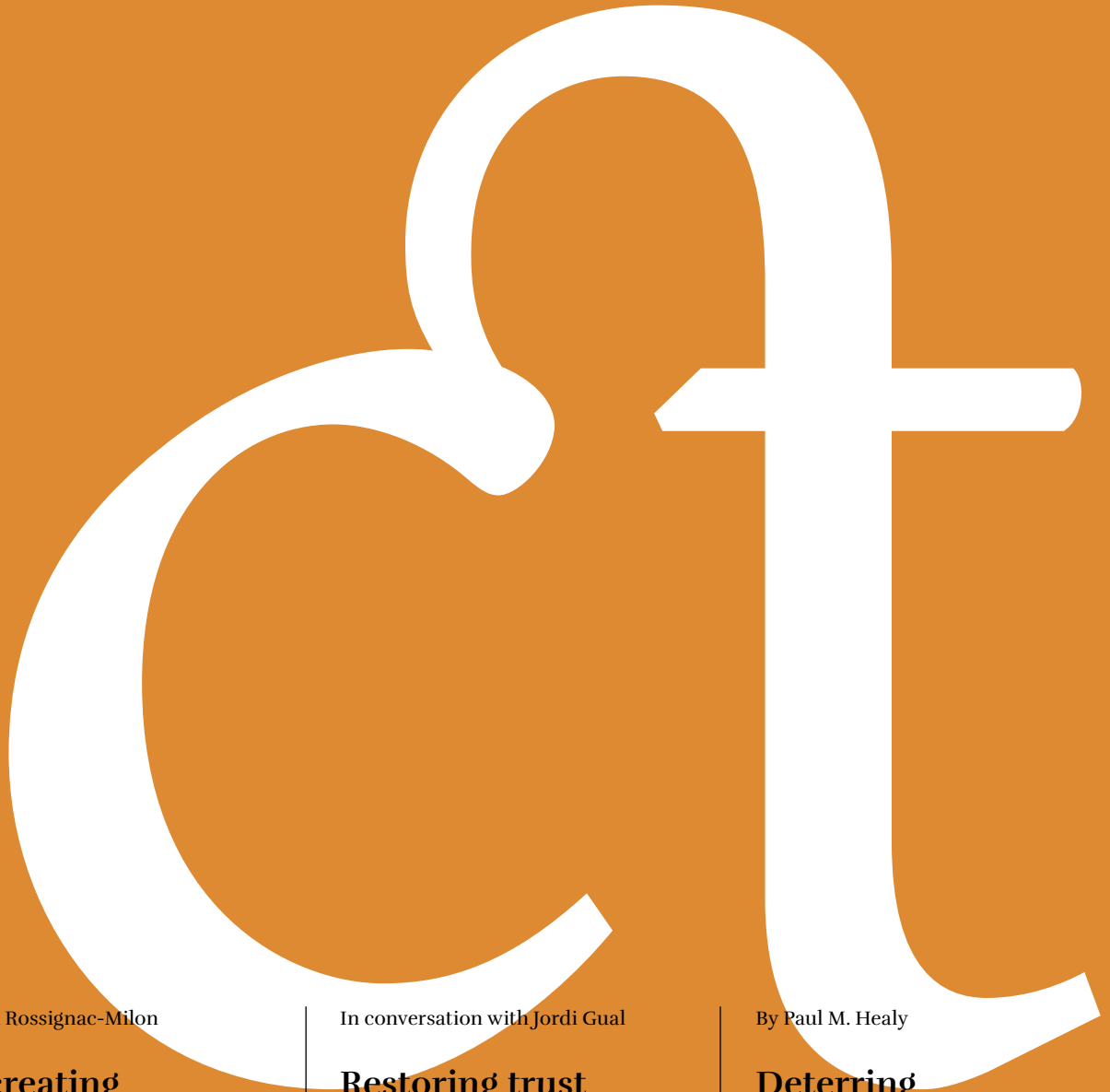
Language:

English.



School of
Founders

KNOW



By Maya Rossignac-Milon

**Co-creating
authentic business
relationships
in the age of
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Co-creating authentic business relationships in the age of siloed reality

By Maya Rossignac-Milon

Establishing a sense of shared reality can go a long way toward bridging the digital gap.



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ILLUSTRATIONS: Judith Fernandez-Salineró

Politics, social media and a fragmented information landscape — all seem designed to divide us. Once, we huddled in front of the TV or gathered round the water cooler to discuss the latest cultural phenomenon or news story depicting a recognizably common version of events. Now, gone are those days when we could confidently expect our colleagues, friends and family to have broadly the same opinions or cultural reference points as us.

Although a greater diversity of viewpoints can be beneficial, it can also leave people feeling “alone together” — individually isolated on different devices, different channels and different platforms, filtered according to the whims of their billionaire owners, each with their own particular political, social and economic agendas.

Yet, as bad as things may currently feel, sharing a common conception of reality is about to get a whole lot harder. New virtual reality headsets by Apple, Meta and others portend taking the phenomenon of siloed reality to new extremes, distorting the physical world into yet another space dominated by algorithmically personalized content, with chillingly *Black Mirror*-esque ramifications. Reviewing Apple Vision Pro, a *Guardian* columnist stated: “The cameras through which you see the world can edit your environment — you can walk to the shops wearing it, for example, and it might delete all the homeless people from your view and make the sky brighter.”

The Virtual Human Interaction Lab at Stanford, studying such tech, noted how VR “can inspire awe” but also “interfere with social connection,” essentially rewiring our brains. *Business Insider* quotes this stark warning from lead researcher Jeremy Bailenson: “What we’re about to experience is, using these headsets in public, common

A shared conception of reality is a make-or-break for teamwork

ground disappears. People will be in the same physical place, experiencing simultaneous, visually different versions of the world. We’re going to lose common ground.”

How will this affect the way we work together? Will it even be possible to work together? A shared conception of reality is a make-or-break for teamwork and interpersonal relations. The good news is, according to my research, it’s possible to develop shared reality, even in these times of change.

Rebuilding common ground

Human beings have two fundamental needs above and beyond basic survival:

- **Relational needs:** to develop and maintain social relationships with others.
- **Epistemic needs:** to establish the sense of knowing what is real and true in the world.

Both needs are dependent on other people. While we can, of course, have our own version of the truth, feeling alone in our opinions can undermine the extent to which those opinions feel real and true. When our opinions are shared with others, they come to feel more real, more factual — as though they reflect the objective truth. As a concrete example, a marketing director will feel

more certain that she is making the right decision about when to launch a new campaign if her team agrees that it's the best course of action.

Having our own version of reality, beyond undermining our feeling of being “right” about things, can socially isolate us from other people. When we feel on the same wavelength as others, we feel connected to them — we feel that we belong. Humans are fundamentally social creatures, and threatening this sense of social connection can rattle us at our core.

As a result, it can often be difficult to move forward as a team without that sense of shared reality. Agreeing on the fundamental facts of a situation forms the basis for a sense of shared competency. Making effective decisions about production, supply chains, marketing and even the target customer requires members of the team to trust each other to be on the same page. This becomes especially important when the team is virtual, where you cannot rely on in-person social cues to smooth over differences of opinion or correct misunderstandings.

My research finds that shared reality contributes greatly to team cohesion and, ultimately, performance. On days when employees experience greater shared reality with their teammates, they find their work more meaningful, they act more kindly and they perform better.

It also contributes to healthy interactions between leaders and their teams. Employees show higher job engagement and lower rates of burn-out when they see themselves on the same page as their line manager.

And shared reality matters beyond just the context of ongoing relationships with coworkers. It also matters from the get-go, right when we first meet: while networking.



Network connections

Networking is a form of establishing shared reality. In trying to initiate a relationship with a professional contact, you're seeking to make an interpersonal connection. And when two people make a connection in one area, it's easier to extend that connection to other areas, and the relationship is more likely to progress further. Having meaningful network connections is key for career advancement. Yet, this practice can often make people feel uneasy.

Reaching out to a stranger for the sole purpose of self-advancement can feel unpleasantly instrumental. The goal of networking is supposedly to build a long-lasting professional bond, yet the transactional nature of the exchange can feel more like making a quick sale. Recent research has shown that this is at odds with people's natural desire for real or authentic connection, giving rise to feelings of dissatisfaction or even immorality — of feeling “dirty.”

So how do you combat the “ick” factor of networking? If establishing shared reality through networking is important for personal and professional development, is the answer simply to put on a happy face, get over your reservations and “fake it till you make it”?

Absolutely not. My research underscores the advice to “be yourself” in initial professional interactions. In fact, speaking up and expressing your true thoughts and opinions, even if it feels a little out of place, can help you better connect with others.

You often hear business coaches recommending “impression management” as the means of forging interpersonal connections. In other words, we are advised to moderate the way we present ourselves — through the way we talk, dress and act — in order to shape the way others perceive us. This can mean we conform or withhold certain information if it boosts positive perceptions of the personal brand we are seeking to craft for ourselves.

I would suggest, however, that individuals be wary of adhering too closely to such strategies because, according to my research, the perception of being genuine appears to be a key driver of relationships in the initial stages. And in networking contexts, where instrumental motives are already suspected, people are especially attuned to signs of authenticity — or the lack thereof (“Does this person genuinely agree with me, or do they just want me to like them?”).

Authenticity rules

Together with Julianna Pillemer (NYU Stern), Erica R. Bailey (Berkeley Haas), C. Blaine Horton Jr. and Sheena S. Iyengar (both of Columbia Business School), we tested these ideas through six different studies, using a combination of experiments and surveying individuals attending professional networking events, and then following the relationships formed in the weeks following the events.

In several of these studies, we examined actual conversations between new acquaintances and identified particular interaction behaviors that came across as more authentic: being vulnerable (opening up about feelings and weaknesses) and acting spontaneously (rather than sticking to scripted behavior).



As indicated by the title of our paper published in *Organizational Behavior and Human Decision Processes* — “Just be real with me: perceived partner authenticity promotes relationship initiation via shared reality” — we found that perceiving an interaction partner as authentic increased the experience of shared reality with that person. And when people experienced a sense of seeing the world in the same way, they were more likely to initiate a professional relationship.

We found that these effects extended beyond robust predictors of professional relationship initiation, like interpersonal warmth and professional competence, suggesting that letting yourself be a little more spontaneous and sharing how you really feel may be more crucial to successful networking than we realize.

One demographic that understands the power of authenticity to promote shared reality is Generation Z. Having grown up on the internet,

where fakes abound, they appear to have developed a stronger immunity — indeed an allergy — to inauthenticity than older generations have. It seems that when you grow up in a virtual atmosphere, where the notion of truth is slippery and shifting, the epistemic need for a sense of shared reality is even stronger. Perhaps this is why Merriam-Webster named “authenticity” a year-defining word for 2023.

Being authentic in professional interactions supports shared reality

A *Fast Company* article describes how Gen Z are changing what it means to network and they're doing it in new ways. According to the article, not only are Gen Z networking more than older generations, they're approaching it as "making friends," rather than "using people as stepping stones." Framed this way, networking feels a lot less intimidating and opportunistic. Formality is out; playfulness, openness and transparency are in. This echoes research by Darden's Sean Martin et al. on work talk: treating it as "socializing" rather than "professional networking" can increase eventual relationship formation.

The *Fast Company* article elaborates with a series of tips: "Don't put on a professional persona. Never try to sell anyone anything. Get to know

the human rather than their position. Don't force connections just because someone has a certain title or works at a certain company. Always go into a conversation with empathy and curiosity to learn more about the other person's story. Build connections on the basis of common interests."

If people believe their counterpart's expressions are authentic, this perception is likely to serve as a foundation for developing a shared reality and, in turn, initiating a real, lasting relationship. Conversely, if people are unsure whether their interaction partner is genuine, they will be less able to gauge the sincerity of their connection.

For new generations of business leaders who are grappling with an increasingly virtual world of

Re-creating shared reality in virtual or hybrid teams

How can we retain a feeling of being together, even as we work apart? Shared reality, my area of research, suggests various ways of fostering close social and emotional bonds and merged minds among team members, even in remote or hybrid work settings.

Besides the techniques already mentioned in this article for replicating the proverbial morning chat around the water cooler in digital spaces, try introducing other rituals and ceremonies that foster belonging at the start of online meetings. For example, play a warm-up game such as the improv exercise of "Yes, and" – whatever your colleague's idea, you say "yes" and then add to it. Besides helping to promote shared reality within a specific team, such ongoing targeted rituals can contribute more broadly to organizational cohesion and commitment.

Also think carefully about the technology you use. The term "Zoom fatigue" exists because users tire of being relentlessly face-to-face

in a "competitive" stance versus the more "cooperative" side-by-side stance of sitting around a table in an in-person meeting. Other platforms, like Miro, Mural or FigJam, allow employees to collaborate online without the constant gaze of the camera. And if you have to always have your camera on, perhaps have employees give a tour of their home office or the view out their window, giving glimpses into each other's reality.

Above all, have a plan. Which projects would benefit most from experiencing a shared reality? What schedule works best for everyone? Sometimes remote work can hamper efficiency and elevate stress. But shared reality introduces a fresh framework for achieving balance, allowing employees flexibility while ensuring alignment and collaboration on key goals.

READ MORE: "Re-creating office bonding in virtual or hybrid teams" at www.iese.edu/insight/

individuals isolated in their own algorithmic universes, having an *authentic* professional network provides a strong basis for shared reality, enabling people to collaborate more productively.

Building shared reality with authenticity

Here are some practical ways to be more authentic in your interactions with others.

BE SPONTANEOUS AND UNSCRIPTED. Our research shows that spontaneous behavior signals authenticity to others because it suggests you are acting from your own volition rather than simply acting from a script. Conversely, when people appear overly rehearsed — such as posing for a photo or retelling a story — they are seen as less authentic. Whether it is through your unique sense of style or humor, don't be afraid to let a little of yourself show, even in professional settings.

BE VULNERABLE. Being transparent about vulnerabilities helps create alignment between inner and outer states, so that your partner is not left guessing about your motivations and agendas. Expressing your true thoughts and opinions can create trust, which is the basis of shared reality.

BE CURIOUS. Let your networking be guided by curiosity and exploration rather than transaction and competition. Look at business relationships as opportunities to learn and make genuine connections rather than simply impress top managers.

PLANT DIGITAL SEEDS. Interact with other people's content with no expectations for reciprocation. And you don't need a high follower count or a professional facade. All it takes is an interaction with someone else's content in a genuine way — a sincere like or a thoughtful comment and you can establish a sense of shared reality across a screen. Creating your own content on platforms like LinkedIn is also a great way to let others see your authenticity and come to you.

The author



Maya Rossignac-Milon is an assistant professor of Managing People in Organizations at IESE. Her work has introduced the novel construct of Generalized Shared Reality and she examines its role in improving organizational outcomes, including social connections between coworkers, work meaningfulness and job performance.

CARVE OUT DIGITAL COFFEE BREAKS. It's important for people to be able to create shared reality with their colleagues in non-work spaces. Consider creating a Slack channel dedicated to employees' interests, from upcoming concerts to restaurants and beyond, with just one limit — no talking shop. Likewise, you can encourage employees to form groups based on similar life experiences, such as an expat group, a new parent group or even a Spotify playlist. Shared reference points can go a long way toward bridging the virtual gap.

By intentionally practicing some of these exercises, you may begin to find authentic connectedness forming naturally. And the more the world fragments, the more these moments and spaces of shared reality will become of critical importance to the fabric of society, the continuing success of business, and the creation of effective and productive teams. ■

SOURCE: "Just be real with me: perceived partner authenticity promotes relationship initiation via shared reality" by Maya Rossignac-Milon et al. *Organizational Behavior and Human Decision Processes* (2024) <https://doi.org/10.1016/j.obhdp.2023.104306>.

Restoring trust in capitalism



ILLUSTRATIONS: JOJO CRUZ

Capitalism relies on a trust-based system. Even though citizens have lost trust in the economic/financial world and public entities, it's not too late to regain it.

In conversation with Jordi Gual

IESE Professor of Economics



Human beings are social creatures. Our social interactions — with friends, family, colleagues and even the strangers we cross paths with daily — are what influence us, more than money and material goods, despite living in a capitalist economy. We're not isolated individuals, existing in a vacuum. What happens around us — politically, socially, economically — affects us all. Our wellbeing depends on and concerns others'. Even the so-called “free” market economy depends on social networks to function well.

In this interview, IESE Economics Professor Jordi Gual explains how trust plays a crucial role in capitalist economies and why, in recent decades, citizen trust has decreased. It's the basis of his new book, *Confiar no tiene precio* (*Trust is priceless*), which partly draws upon his experience as Chairman of CaixaBank (Spain) between 2016 and 2021.

Why is trust so important for capitalism?

The market economy is an impersonal system of economic transactions. People exchange goods and services at prices that are, in most markets, freely set by the market players themselves. However, because not all market transactions or contracts are foolproof, business operations can get complicated. Only when there is a baseline of trust can business relationships flow smoothly and be profitable.

I will give an example: Cryptocurrencies emerged to avoid transactions that relied on banks or central institutions. However, precisely because the

identity of people trading in the digital currency space is unknown, there have been numerous scandals stemming from dishonest players who are shielded by anonymity.

A company must earn the trust of its customers and employees. At the same time, society tends to place its trust in companies whose primary objective is to address societal needs through their products and services. The company must be profitable for the sake of fulfilling this function.

Trust is also crucial for public institutions. As Confucius observed thousands of years ago: Public authorities can lead without armies, even without food, but not without the trust of those they govern.

What does trust look like in Spain? And how does that compare with other market democracies around the world?

According to the World Values Survey (2017-2022), 41% of respondents in Spain indicate that “most people can be trusted,” a percentage that aligns with the European average of trust. In Germany, that figure is at 44.6%, and in Italy, 26.6%. Nordic countries fare much better, with figures exceeding 60%. In Denmark, the percentage of trust is at 73.9%; in Finland, 68.4%; and in Sweden, 62.8%.

At the other end of the spectrum in Europe is Greece, where only 8.4% of respondents say they trust others. Eastern European countries such as Romania and Bulgaria have similarly low numbers at 12.7% and 17.1%, respectively.

For reference, 37% of respondents in the United States say they feel most people can be trusted — a percentage that has been declining for some time now.

Generally speaking, when trust in others is low, it can extend to public entities, including government bodies, political parties and policymakers.

What has caused trust in others to decrease?

In recent decades, the world has undergone profound transformations on several fronts. The global economy and people's lifestyles have been drastically altered, affecting our collective sense of stability and our expectations of the future. Years of rapid globalization have led to economic migration, offshoring of production and significant changes in Asian economies, particularly with regard to China. We have experienced a digital revolution, culminating in new AI technologies that are already affecting our workplaces. What's more, climate change is affecting the way we approach energy, creating tense debates within society.

All this has taken place in a macroeconomic environment characterized by greater instability, reaching a peak with the global financial crisis of 2007-08. The more recent COVID-19 pandemic amplified people's sense of insecurity and anxiety.

In many countries, citizens feel their existing economic and political systems are not living up to expectations. A rejection of capitalism and liberal democracy is on the rise. Trust in large companies and public institutions is being undermined.

“Citizens feel their existing economic and political systems are not living up to expectations”

We see this in the financial sector, a part of the economy that is especially reliant on trust. We place a lot of trust in the private banks where we deposit our money, in the people we loan to, and in the central banks that issue our currencies. That is why the financial crisis of 2007-08 had such a dramatic effect: It highlighted what can happen when overly accommodating monetary and regulatory policies go on for too long. When the bubble burst, it damaged the credibility not only of the financial system but of the entire market economy itself. For the average citizen, the global financial crisis was unfair, incomprehensible and, in many cases, had unanticipated, lasting negative consequences.

Can you elaborate on how the response to the financial crisis fomented distrust?

First, because it was a debt crisis, businesses and households had a hard time regaining financial balance and the recovery was slow. There were also policy errors: a delay in cleaning up balance sheets, and banks were required to accumulate capital too quickly. On top of this, in Europe, we didn't have a fully integrated financial market and there were many fiscal authorities; that is, we had the additional suffering of a still-developing monetary union.

Second, monetary interventions went on for too long. This led to a policy of negative interest rates that lasted for many years, with multiple adverse effects, especially on people's savings.

Third, there was a lack of proper communication from public administrations. It wasn't made clear enough to citizens that the bank bailouts were an attempt to prevent the collapse of the financial system so that the deposits of citizens remained protected. This, along with difficulties in holding individuals accountable for the firms that went bankrupt, created distrust toward the economic/financial world and policymakers. What's more, fiscal and redistribution policies, which could have alleviated the consequences of financial instability on the population, didn't solve the problem.

Overall, our fiscal policies didn't deal effectively with the impacts of the financial crisis. In Western democracies, the public sector tends to accumulate

deficits, which prevents it from acting as a counterbalance to unexpected negative shocks like the 2007-08 financial crisis, the COVID-19 pandemic or the war in Ukraine. Fiscally prudent countries, such as Denmark or Finland, have successfully avoided the accumulation of public deficits — and therefore, of debt — allowing for a better response to unprecedented events. Not surprisingly, they tend to be the countries where trust in others — and in the state — is greater.

While redistribution policies across continental Europe have helped reduce some income inequality, they still fall short of providing the necessary opportunities for the most disadvantaged segments of society. That's because redistribution policies can generate distrust if they are used solely for electoral purposes, resulting in an appropriation of state resources by political elites to stay in power. In countries where this has happened, citizen disillusionment with their economic and political systems has gone up.

What about private companies: what societal responsibilities do they have?

Because public policies have failed to meet people's needs, there's demand for private companies to step up and play a more active role in addressing society's biggest problems. Many businesses can take on this challenge by clearly defining their corporate purpose, aligning it with meeting societal needs and contributing to solving social issues.

The company must, of course, be profitable, otherwise it won't be able to achieve its purpose. A company that isn't profitable and can't pay its shareholders for the risks they have taken in investing in the company will simply disappear from the market. And although profitability is not an end in and of itself, it is essential in ensuring the company's goals are met.



That being said, purpose-driven companies create an atmosphere of trust and commitment among all their stakeholders. This is the foundation of their competitive advantage, and it's a way to gain society's trust.

Your new book argues that capitalism is facing a backlash because people feel insecure about their jobs, their pensions and the precariousness of the welfare state. How can this situation be remedied?

Globalization is often blamed for these things — used as a scapegoat by politicians because it's an external enemy. Politically speaking, it's more advantageous to blame outsiders than to recognize one's own shortcomings in failing to improve the quality of the workforce or the education system.

Capitalism, on the other hand, is an efficient system for generating wealth, although it doesn't necessarily distribute that wealth equitably. As I mentioned before, public policies have not fulfilled

their function of providing for the common good because they have been used too shortsightedly, using public spending to win votes or to satisfy special interest groups that support the political parties in power.

In order to revitalize capitalism, we must acknowledge that individualism — which is an essential part of the current political and economic ideology — should be complemented by altruism. The good news is that altruism is innate to us as social beings and it is a necessary means of fomenting trust in each other. Trust ultimately leads to better social cooperation, promoting the creation and development of institutions and economic growth.

If what we need is more trust and everyone would benefit from it, why is it so hard to obtain?

Trust is a valuable asset, but it can't be bought; it arises naturally in human interactions. And although it's priceless, it can be costly. That's because when we trust someone, we take a risk. Other people may disappoint us, even if it's unintentional, because they don't meet the expectations we've placed on them.



Likewise, if someone places their trust in us, we're assuming a lot of responsibility. If we're selfish or think only of ourselves, it will be difficult for others to trust us because trust requires benevolence. It also requires having shared values of honesty, loyalty and commitment. When we trust someone, we expect them to act in our best interests without asking them to prove themselves. In the words of philosopher Annette Baier: "Trust is the pleasant feeling that others are with us in our endeavors."

It's also important for societies to have a shared concept of justice. Trusting others involves judging their behavior in unforeseen circumstances, and it's imperative to agree on what behaviors are considered morally or ethically correct. In today's complex societies where many cultures coexist, reaching this agreement isn't always easy.

Trust, or distrust, can spread quickly. If we accept the trust that others place in us, and if that trust is validated by our actions, we can contribute to a virtuous circle of trust. This is why every single person's behavior is important. Our actions will either foment trust or hinder it.

What can public entities do to regain trust?

Societies with higher levels of trust — placed on fellow citizens as well as on public entities — tend to be societies where altruism extends beyond one's close circle of family and friends. In these societies, people care about the common good and collective pursuits.

One way to create trust is by ensuring that public institutions remain politically neutral and serve the interests of the entire population, rather than favoring any one specific political party. What's more, discrimination can never be tolerated, and professionalism must always prevail.

“Trust requires benevolence and shared values of honesty, loyalty and commitment”

European countries with the highest levels of trust are those that have an active and demanding civic society. These countries do not necessarily have higher levels of public spending or a government that plays a more active role in providing for citizens' welfare. Instead, these are countries where the financial stability of the public sector is prioritized. Moreover, their social inclusion policies are not merely about wealth redistribution via taxes and regulation, but a set of actions aimed at the inclusion of every individual in the labor market and in the social fabric. That's how trust can be restored. With policies that foster the common good. ■



MORE INFO: *Confiar no tiene precio* (Trust is priceless) by Jordi Gual is published by Penguin Random House (2024).

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ILLUSTRATIONS: Javier Tascón

DETECTING CORPORATE CRIME

By Paul M. Healy



Better oversight and strong leadership are key to making it clear to all employees that crime doesn't pay.

In March 2024, Sam Bankman-Fried, previously convicted of defrauding customers of his cryptocurrency exchange FTX, was sentenced for his crimes. In seeking leniency, his defense team had tried to argue that his was a victimless crime, in that he wasn't "a ruthless financial serial killer" but rather an "awkward math nerd," and that investors would eventually get their money back. "I never intended to hurt anyone or take anyone's money," Bankman-Fried insisted. "I never thought that what I was doing was illegal." These are typical justifications in cases of corporate crime. But the judge wasn't buying any of it and sentenced Bankman-Fried to 25 years in prison.

History is littered with similar cases of apparently successful businesspeople and companies engaging in material corporate crime, such as fraud, corruption and money laundering. Since the start of this century, Enron, WorldCom, Parmalat, Siemens, Lehman Brothers, Petrobras, Wells Fargo, Volkswagen, Wirecard, Theranos and FTX have become household names for their widely publicized scandals. For many of these companies, the resulting financial damages and loss of investor and customer trust precipitated their collapse. In other cases, the scandal led to costly lawsuits and reparations, damaged the company's reputation, and distracted management while they dealt with the fallout.

Public concerns over corporate scandals and trust in financial markets have generated new regulatory efforts to deter crime, such as the Foreign Corrupt Practices Act and the Sarbanes-Oxley Act in the U.S. and the Bribery Act in the U.K. As a result, virtually every public company invests in and claims to encourage compliance.



Despite these efforts, a 2022 PwC Global Economic Crime and Fraud Survey documents that the incidence of corporate crime has increased over time: More than half of the firms responding to the survey reported that they had experienced fraud in the past two years, the highest level in 20 years of PwC's research.

Some argue that these failures are caused by a few bad apples, and that every firm will inevitably have some, making the occasional lapse impossible to avoid. However, a growing body of research identifies some common failings that enable the bad apples and may even pressure well-intentioned employees to look the other way or participate in misconduct. Thankfully, this same research suggests effective ways to reduce the risk and magnitude of misconduct before it becomes widespread.

Causes of corporate scandals

Over the past decade, colleagues and I have conducted research on corporate crime, ranging from analyses of public and proprietary data to in-depth interviews of the perpetrators of crime and their colleagues. A common pattern at companies experiencing significant misconduct is that their leaders enabled employees to rationalize bad behavior. In such circumstances, employees faced with performance pressure were tempted to take shortcuts or even commit crimes. We observed this enabling behavior in several ways.

1. A focus on meeting goals at any cost. This creates a destructive tone at the top. In a case study I did on Siemens, employees reported that their managers had encouraged them to just get the business and made it clear they wouldn't ask how it was achieved. Consequently, when performance and competitive pressures escalated, some employees paid bribes to generate business.

A common pattern where misconduct occurs is that leaders enable the bad behavior

Another case study by Harvard colleagues on "Sales misconduct at Wells Fargo community bank" reveals how employees were pressured to cross-sell products to customers to meet company goals. In response, some resorted to adding new services to customer accounts without their permission.

A Harvard case on Theranos reveals another pressure tactic: Founder Elizabeth Holmes and CEO Sunny Balwani fired any employees who dared question the viability of the company's technology, sending a strong message to the remaining employees that raising questions was unacceptable.

2. Warnings ignored. When boards and executives ignore problems, they send a message to employees that they aren't committed to addressing them.

Siemens' board and executives should have been alerted by 1999 regulatory changes in Germany that outlawed international corruption, by corruption charges in Switzerland and Italy in the early 2000s, and by the decision to list in the U.S. where anticorruption laws were more actively enforced.

Likewise, Wells Fargo's board and executives should have been alerted by employee turnover data and several high-profile press articles questioning the company's aggressive sales tactics.

Be alert to red flags and respond forcefully when warning signs are triggered

When employees see management failing to react to these types of public challenges, they are likely to infer they are not high priority.

3. Double standards. Employees also infer that managers aren't really committed to business integrity when they observe double standards in meting out punishments to perpetrators of corporate crime.

In our paper "Who pays for white-collar crime?" George Serafeim and I found that perpetrators of crimes who are senior executive men tend to receive lighter punishments than junior perpetrators or senior executive women. If firms fail to prosecute or even fire perpetrators who are senior male colleagues, what message is that sending to others in the organization about the importance of following the rules?

4. Downplaying the harm. Eugene Soltes has studied many of the most infamous corporate criminals of the past 20 years. In his book *Why they do it: inside the mind of the white-collar criminal*, he found many people rationalized that their crimes didn't really harm anyone and that there was little difference between their illegal actions and those that were legal. Of course, neither is true. But in contrast to violent crime, where the harm to the

victim is clear, the victims of corporate crimes are unidentified shareholders, customers and/or competitors. We saw this in the Bankman-Fried defense. In reality, these types of justifications from the top only serve to weaken the tone and exacerbate the harms done.

Deterring corporate crime

An essential goal for all leaders should be to deter misconduct. Even though some corporate misconduct may be impossible to eliminate entirely, it is important that it not be allowed to escalate and permeate the company culture. Here's how.

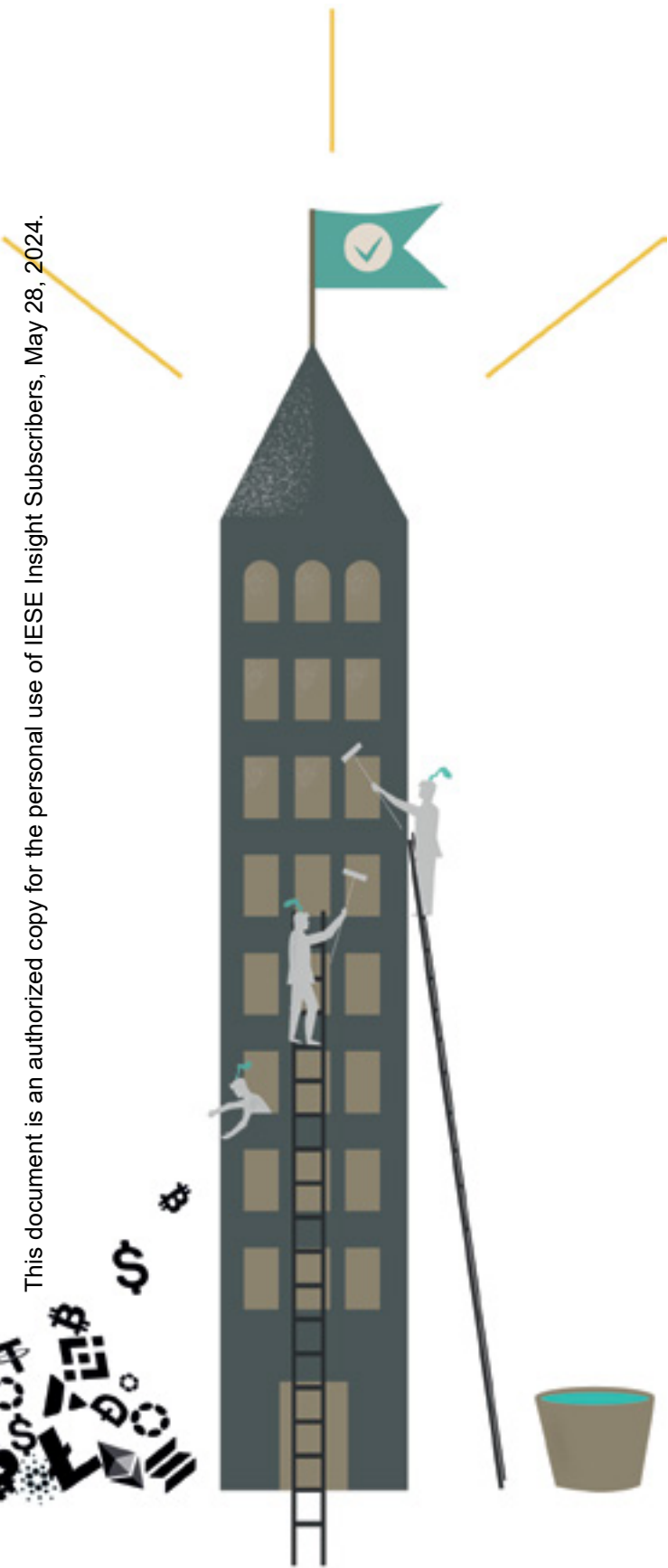
1. Send a clear message. To deter corporate wrongdoing, companies should send a strong message about how employees are expected to behave. This could be through a policy of zero tolerance for misconduct or through a more inspirational message on the level of integrity expected. An unambiguous policy makes it more difficult for employees to rationalize misbehavior or say they didn't know.

2. Be consistent. Of course, for this message to be credible, managers' own actions must be consistent with the policy. Simply articulating a policy but not following it up is unlikely to be convincing to anyone. This means the same demanding standards of accountability must apply to everyone. In other words, the rules cannot be different for senior male colleagues.

3. Read the signs and respond appropriately. Boards and executives need to be alert to red flags that signal problems and respond forcefully when those warning signs are triggered.

The credibility of a company's policies and espoused culture is enhanced if others in the organization can observe how past crimes and warning signs have been handled. This can be challenging because a common response among





senior managers is to keep the matter secret to avoid negative publicity. Yet, as insiders usually learn of the news anyway, secrecy can send a conflicting message.

I have observed some innovative ways for companies to communicate crimes and their responses to employees:

- One is to report aggregate statistics each quarter on the frequency of different types of misconduct and the consequences for primary perpetrators.
- Another example comes from a large pharmaceutical company that had experienced a serious fraud. The senior management team was concerned there was insufficient evidence to prosecute the perpetrator, but the managers still wanted the misconduct to be communicated throughout the organization and the lessons learned. To this end, I was asked to write a case study on the fraud for internal company use and to teach it to all its senior finance personnel.

4. Communicate the real costs. In interviews with employees explaining their own or others' crimes, they frequently say they were simply acting in the best interests of the company and its shareholders. This is a common justification for paying bribes to win more business.

However, in a study of 480 multinational firms, George Serafeim and I found that illicit business isn't very profitable. Our "Analysis of firms' self-reported anticorruption efforts," published in *The Accounting Review*, compared the profits of multinationals rated by Transparency International and found that, relative to peers with strong anticorruption ratings in 2006, firms with low ratings generated 5% per year higher sales growth in corrupt regions in the three subsequent years. This would seemingly reinforce the view that firms that turn a blind eye to corruption can generate additional business in countries where corruption is a problem.

But digging deeper, we found these same firms had lower profitability on their growing sales in these regions, suggesting they were unable to pass on the cost of the bribes by raising prices beyond those of their competitors. Using traditional valuation models, we also found that the shareholder value these companies created from higher sales was fully offset by their lower profits. And if their corruption was made public, their reputations and profits would likely take a further hit. Not surprisingly, companies with low anticorruption ratings in 2006 had a 28% higher likelihood of media citations for corruption between 2007 and 2010.

Of course, the costs of corporate misconduct are not just about negative impacts for investors. Recalling the list of companies at the beginning of this article, it's worth remembering those who pay for their actions with lengthy prison sentences and hefty fines, not to mention devastating reputational damage. As Sam Bankman-Fried admitted at his sentencing hearing, "My useful life is probably over."

Less widely recognized are other executives who had nothing to do with the crimes but who suffer nonetheless. A study of pay for more than 2,000 senior executives who changed companies found

that those who had worked at a scandal-ridden company were paid nearly 4% less than their peers when they moved. These effects persisted for years, even if the executives had left the company before the scandal took place. According to the study by my Harvard colleagues Boris Groysberg, Eric Lin and George Serafeim, the cost was greater for more senior executives (6.5%), for women (7%) and in countries with stronger regulatory and governance systems (6%).

Board responsibilities

All these actions are the responsibility of the senior management team, who set the tone at the top. But the board of directors, who appoints the CEO, is also responsible for ensuring that the firm has a culture of integrity. This requires the board to judge whether the CEO is setting a high standard of integrity for the organization and to evaluate the integrity of candidates when there is turnover.

Research suggests that some boards are willing to overlook misconduct in CEOs' personal lives, even though personal misconduct can bleed into the workplace. As noted in "Bank CEO materialism: risk controls, culture and tail risk," published in the *Journal of Accounting & Economics*, companies whose CEOs had prior personal legal infractions, such as drunk driving, domestic violence and drug charges, were more likely to commit fraud at work. Presumably, their boards were either unaware of their transgressions or had discounted them.

Scandals reveal that boards are often not very well informed about the CEOs and firms they oversee. Theranos, for example, had a distinguished set of directors, including noted government leaders; yet they had little knowledge of or experience

The board is responsible for ensuring that the firm has a culture of integrity

with overseeing medical equipment innovations. Instead, they were captivated by Holmes and her vision, and they took her at her word that the technology was working, without making any independent assessment of their own.

At FTX, governance problems were even more severe. The company didn't even have a board until 10 months before it failed, which let Sam Bankman-Fried get away with mismanaging billions of dollars without any oversight. Moreover, by incorporating in Antigua and Barbuda and being headquartered in The Bahamas, the company was only lightly regulated.

Effective boards I have observed take an active role in reviewing the firm's culture. They do so by meeting regularly with individuals at different levels of the organization, so that they are not beholden solely to information provided by the executive team. These meetings are often arranged around board meetings.

Glassdoor and other such online sites can provide reviews of how current and past employees perceive the company. And we have observed innovative boards and management teams commissioning independent employee surveys to gauge how employees are experiencing the culture. These kinds of regular checkups make a difference.

A culture of integrity

In summary, firms involved in corruption scandals often have a culture of undermining individual integrity by stressing the importance of remaining competitive and meeting targets at all costs. If left unchecked, this culture can enable bad apples to rationalize misconduct and can encourage even honest employees to look the other way or participate.

The author



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Strong leaders create a culture of integrity by articulating clear expectations as to how employees should behave. These policies can espouse zero tolerance for misconduct, seek to inspire employees to behave with integrity, and send a clear message that misconduct doesn't pay for anyone — shareholders, employees and other stakeholders alike. They will be seen as credible because everyone in the organization will know what is expected of them and how the company will respond to cases of wrongdoing. Finally, it is the responsibility of the board to assure itself that the CEO is setting these standards. ■

READ MORE: "Who pays for white-collar crime?" by Paul Healy and George Serafeim (2016). <https://bit.ly/4akN3sF>

"An analysis of firms' self-reported anticorruption efforts" by Paul Healy and George Serafeim. *The Accounting Review* 91, no. 2 (2016). <https://doi.org/10.2308/accr-51191>

"Fighting corruption at Siemens" by Paul Healy and Djordjija Petkoski (2012). <https://bit.ly/4ajy1wF>

FULL STOP

A stellar challenge

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CREDIT: Samuel de Román

From the lab to outer space: for astronaut and biotechnologist Sara Garcia Alonso, cancer research knows no frontiers.

Sara Garcia Alonso played with a microscope and gazed at the stars as a child. Never did she imagine that one day she'd be doing cutting-edge cancer research for a national laboratory and be the first Spanish female member of the Astronaut Reserve of the European Space Agency (ESA).

Garcia appeared at the inaugural #AeroSpaceDay held at IESE Madrid in January 2024, alongside Pedro Duque, the first Spaniard to go up into space and the current president of the telecom and satellite operator Hispasat. The event was organized by the recently formed Aeronautics & Space Hub of IESE Alumni. It brought together experts and entrepreneurs from the industry to discuss challenges, trends and success stories, like that of Garcia, who has taken her twin passion for molecular biology and space, and made it her life mission — to improve others' lives.

A life-changing decision

Garcia graduated with top honors from the University of Leon with a degree in biotechnology, followed by a doctorate in molecular biology, also with honors, from the University of Salamanca's Cancer Research Center. Although she had always been drawn to space, becoming an astronaut was never top of mind. It wasn't until 2021, when the ESA put out a call for female applicants, that she ever saw it as a feasible option. By then, she was already working at the Spanish

National Cancer Research Center (CNIO) in Madrid, leading new drug discovery research for lung and pancreatic cancer.

"I specialize in targeted therapies, understanding the needs of each patient and offering them individualized treatments," she says. "If I were chosen to go into space, I would seek to advance precision medicine from the lab of outer space."

Going up against more than 20,000 other candidates, Garcia felt her chances of making it through the ESA's rigorous selection process were slim. Still, she figured she had nothing to lose and, in any case, it would be a valuable learning experience: "I'd face situations I wasn't used to, get to know myself better and hopefully come out stronger. In the end," she says, "it changed my life."

Proving her worth

What set Garcia apart? The way she proved herself, says Duque. "When we select people, they must have demonstrated something," he explains. "Why did NASA choose Neil Armstrong to go to the moon? Because he had been demonstrating his capabilities for a long time beforehand."

Being an astronaut today is as much about psychology as knowledge. "What you need to know for a space mission will be taught during training," says Garcia. While being in excellent physical condition is important, "I'm not superwoman. No one is." The key is having the right set of capabilities.



Pedro Duque says Sara Garcia proved she has what it takes to be an astronaut

For each phase of the selection process, Garcia demonstrated the personal and professional skills, abilities and competencies she had acquired through her daily work in the lab, which, as it turns out, are also vital for going to space — not to mention business leadership.

Interpersonal skills. One reason Garcia believes she was chosen is because the ESA was confident she could handle working for six months at a time in confined quarters with wide-ranging personality types, collaborating constructively with professionals from various fields.

Focusing energies on the essential. You can't be the best at everything. In any new situation, the important thing is to grasp the key bits. "You have to assimilate vast amounts of information and identify the relevant parts, quickly, under pressure, all without losing enthusiasm. You have to stay operational and energetic, even with a heavy workload."

Managing adversity. In the lab, Garcia faces many high-risk situations, like handling highly toxic materials and complex machinery. "You need nerves of steel," she says. Like any space mission, lab work requires repetitive training: "I had to learn

new procedures and follow strict protocols for adverse situations." It's not enough to achieve a high probability of safety; it has to be 100%. The same goes for astronauts, who are put under enormous pressure in scenarios of extreme risk.

Reacting with calm. The lab isn't the only context where Garcia has learned how to react fast under pressure. She also practices martial arts as well as skydiving, scuba diving and climbing — activities where the smallest mistake, fear or overconfidence can jeopardize your life. "You can't let panic or anxiety take over," she says. "You have to solve whatever problem may arise on the spot."

Curiosity without limits

All these traits are fueled by the same triple engine: voracious curiosity, setting no limits and a life purpose of contributing to society.

She describes an innate need "to experiment with everything and be everything all at once." Such hungry curiosity was instilled in her by her parents, both entrepreneurial in their own way (her mother opened her own fabric store and her father had a carpentry shop). "When I asked about magnets, my mother bought me a book about them. When I wanted to experiment, my father gave me a toy microscope and collected samples found on the street. And when we went to the countryside, he took me out to look at the stars with constellation maps."

Coupled with curiosity was a culture of effort, which her parents taught her should be directed toward things you genuinely like and are interested in. They never pressured her to pursue a scientific career and they always let her make her own mistakes. They just wanted her to be happy — something they reminded her of when she was chosen for the Astronaut Reserve.

And what makes Sara Garcia happy? "To keep learning and contributing to improving the lives of others," she says. This is where molecules converge with the stars. "I'm very interested in the tasks assigned to astronauts, the type of missions, the science being done and especially the impact it can have on people and countries. That's what

Space as a lab

Innovative startups

There's renewed interest in space research, as evidenced by the number of new startups with innovative business models made possible by revolutionary tech advances. Human space exploration is necessary, says Garcia, and must be promoted.

Space agencies

ESA and NASA have been doing missions for years aimed at improving cancer treatments, like studying the amount of radiation an individual can be exposed to and how microgravity conditions accelerate cellular processes. "Understanding such phenomena could help us detect cancer cell vulnerabilities and provide new clues for treatment."

Space tourism

Although space tourism may not contribute much to medical research per se, Garcia believes they have spillover benefits. "Private capital accelerates technological development, which can be applied transversally. The more companies involved, the better conditions we will have, and the cheaper the missions will be."

Public-private partnerships

PPPs boost science for the wider benefit of society, with some company-funded space experiments yielding promising results. Garcia highlights the case of a pharmaceutical company that funded research on the effects of microgravity on the development of a cancer drug that could replace hours of chemotherapy with a single injection.



Sara Garcia sets no limits: “Never have, never will”

I’m looking for: to undertake ambitious, inspiring scientific projects, to be surrounded by technology and to work in multidisciplinary environments — all with the spirit of adventure that comes with being an astronaut.”

People-focused leadership

In science, robots are fast making inroads, so could there ever come a day when Garcia sees astronauts being replaced by robots? Not likely: “Humans themselves are the guinea pigs,” she says, enabling research on how microgravity affects the human body, such as muscular and skeletal degeneration, leading to advances in the treatment of osteoporosis and other diseases.

Although she sets no limits (“never have, never will”), there have been times when “walls and obstacles” have been placed upon her — for being a woman, for coming from a small town, for her modest family background, for having a certain aesthetic.

Yet she has managed to work these challenges to her advantage. Because she knows what it’s like to be prejudged and has always wanted to be accepted for who she is, she welcomes diverse pro-

files onto her teams, accepting people, integrating them and not letting conflicts spiral out of control.

Her boundary-breaking background is reflected in her leadership style. To bring out the best in her team, she uses empathy (identifying and managing people’s emotional needs), recognition (listening to everyone’s opinions) and memory (“Remember times when you were treated badly or well to avoid or repeat doing the same to others”). She keeps herself open to new possibilities: “People will only surprise you if you let yourself be surprised.”

All this informs her holistic view of success: “Each individual success contributes to the success of all.” Or to paraphrase Neil Armstrong, each small step becomes yet another giant leap for humankind. ■

MORE INFO: The Aeronautics & Space Hub was initiated by a group of IESE alumni to serve as a meeting point for professionals linked to, or interested in, the aeronautics or space industry. To stay informed about, and participate in, upcoming activities and events, join the dedicated LinkedIn group at <https://lnkd.in/eBKKBbN7>

Members of the IESE Alumni Association can watch the full session with Sara Garcia Alonso and Pedro Duque, moderated by Diego Rodríguez (IESE PDG '03), at <https://alumni.iese.edu/>

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