

INSIGHT

FOR GLOBAL LEADERS

The Positive Workplace

Managing the future with purpose and resilience

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Editorial

The leadership insight that matters today



Franz Heukamp
Dean of IESE
Business School

 /franzheukamp

In *insight for Global Leaders* is the fitting title of this magazine, as today's leaders need greater insight than ever in this fast-changing world. What kind of insight are we talking about? Practical, research-based and grounded in reality. Above all, positive and values-based, in line with our vision of business as a force for good and our mission to develop leaders who strive to have a deep, positive and lasting impact on people, companies and society. This is what you will find inside.

Our cover report highlights what's needed to make "The Positive Workplace" a reality. It starts by being clear on your purpose, rooted in the thinking of Juan Antonio Perez Lopez, who firmly believed business prosperity could not be separated from human flourishing. A focus on people, beyond profit, must motivate our decisions and actions. We commend a diagnostic tool that managers can use to assess some of the threats that people might be feeling today and how to mitigate them. We discuss innovative practices that might transform your own people management. And we share the wisdom of Arthur C. Brooks, whose advice for building happier organizations — and a happier life — boils down to prioritizing four factors within our control: faith, family, friendships and meaningful work, which, as I mentioned before, is closely tied to serving people.

In these exciting times, we each have strategic choices to make. And in making those choices, we must always be mindful of their effect on others. One of the pillars of IESE Business School's identity is care for people, recognizing our interconnectedness and fostering a culture of belonging. We believe that if you put care for people at the center of your decision-making, the outcomes will look vastly different. This is the leadership orientation we encourage. Imagine how different the world would look if we focused on our shared humanity — the common bonds and mutual responsibilities that bind us together — rather than what drives us apart.

Global leaders who choose this path prove to be more resilient and prosperous over time. This is sustainable impact. And it's the real insight that matters. ●

Imagine the world if we put care for people at the center of our decisions

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In Brief

OATHS

HOW TO ENCOURAGE HONESTY

“I hereby declare that the information provided is true.” An honesty oath, like this, right before signing your name, is a familiar feature on tax forms and other official documents. But do they work?

A team of researchers, including Sebastian Hafenbrädl, set out to determine which kinds of oaths were most effective and why. Twenty-one

different oath formulations were tested with U.S. and U.K. participants, who were asked to self-report their income in a tax game, but for the purposes of the experiment, they were incentivized to lie.

In general, the inclusion of an honesty oath increased tax compliance, with the most effective oath type specifying the behavior sought – in this case, to provide honest information when reporting final income – which aligns with other research that reducing goal ambiguity increases goal achievement. The second most effective oath type stated that misreporting income was forbidden.

Mentioning how most other participants behave was also moderately successful in reducing dishonesty, although appealing to one’s social responsibilities did less to improve compliance, perhaps due to the private nature of the task.

Having participants retype the oath, rather than checking a box, bolstered compliance, as did positioning oaths directly before reporting income, suggesting it might be helpful to link honesty oaths as closely as possible to the behavior to be influenced.

Other factors came into play, too. U.K. and female participants showed higher tax compliance on average, but the presence of oaths increased honesty more among U.S. and male participants.

In designing your own honesty oaths, especially when employees have to report information that is difficult to verify, consider these pointers:

- ❖ Spell out the behavior you seek.
- ❖ Define what you mean by “honestly report” by referring to established guidelines.
- ❖ Increase involvement by requiring people to retype the oath (online) or sign it (on paper).
- ❖ Place the oath in proximity to the target behavior, e.g., directly before the reporting task.
- ❖ Understand which groups may be more or less influenced by the use of an oath. ●



Sebastian Hafenbrädl

🔍 “Effectiveness of ex ante honesty oaths in reducing dishonesty depends on content” in *Nature Human Behaviour*.



ORGANIZATIONS

MIDDLE MANAGERS: IN OR OUT?

Many companies are eliminating middle management positions, opting for non-hierarchical or flat organizational structures. The logic is that, without this added layer of bureaucracy, workers can get on with making their own decisions, communicate directly with peers and manage their responsibilities themselves. Who better to decide how the work gets done than those closest to the task?

Having studied flat organizations, Mireia Las Heras finds self-managed teams operate with more autonomy and transparency, giving them a greater sense of purpose, ownership and accountability. This enhances productivity and efficiency, in addition to fostering a more trusting workplace.

At the tech company Voxel, for example, information is shared openly within “circle structures.” In another company, Basetis, employees agree their salaries collectively and they make salary information public to prevent wide pay disparities from opening up.

Even so, flat organizations are not without their challenges. Hiring can become more time-consuming because candidates must be carefully vetted to ensure a good cultural fit. Also, the absence of traditional authority figures does not mean an absence of conflict: decision-making can get fraught when everyone has a say.



It’s precisely for this reason that middle management was created, which is why companies may want to think twice before getting rid of it. Middle managers play strategic roles, says Anneloes Raes, who has studied how they act as the glue holding a company together. Their intermediary position, combined with the right people skills, enables knowledge to be disseminated organization-wide. They help drive productivity: studies attribute 10%-30% of productivity gains to the actions of middle managers.

Wharton’s Claudine Gartenberg did an important study quantifying the relationship between purpose-driven firms and financial performance. She found that

middle managers, far from being the dispensable layer of the organization, were key for driving better firm performance. How? Unlike those at the top, who tend to work for high compensation, or those at bottom, who work strictly according to terms set out in a contract, middle managers work for less obvious incentives — they tend to work for meaning. Having this cohort motivated by a clear view of where the organization is going and how to get there makes them valuable organizational linchpins.

As some companies row back on previous decisions to cut their middle managers, perhaps the future is hybrid: loosening organizational structures to allow more autonomy, flexibility and adaptability, while also leveraging the middle management strength of ensuring that everyone’s goals are aligned and strategies are executed effectively, all with a clear, shared purpose. Today’s workplace may benefit from both. ●

Studies attribute

10%-
30%

of productivity gains
to the actions
of middle managers



Mireia
Las Heras



Anneloes
Raes

STRATEGY

WHY SOME COMPANIES SHRUG OFF BAD PRESS

When Bayer got negative media attention for acquiring Monsanto, it responded by setting up a fund to settle lawsuits related to the agrochemical acquisition. This contrasts with Tesla, which made no changes following media reports of exploitative working conditions and self-driving vehicle crashes. Why do some companies pivot in the face of negative headlines while others don't? Some say it depends on the CEO, but other research suggests it's related to the company's business model — specifically, whether it's novelty or efficiency based.

When facing a backlash, novelty-based businesses are less likely to pivot when the negative coverage doesn't threaten their primary source of value creation or their effective handling of transactions. Owing to their novel strategies, these firms may regard criticism as confirmation they're on the right track because they're all about pushing boundaries, taking risks and upsetting the status quo. However, for firms that favor long-term strategies and efficiency, bad press can pose more of a threat, so they tend to shift gears in order to restore legitimacy.

Knowing the nature of your business model and its strengths is key for assessing how to react to bad press. Efficiency-driven firms may need to be more proactive about their strategic shifts to see if their pivots open up new market opportunities. Innovative firms, meanwhile, may focus more on messaging than transformation. However, even these firms shouldn't ignore sustained negative media coverage, which could point to serious issues identified by stakeholders worth listening to. ●



Joan E. Ricart

“How media coverage elicits strategic change: the moderating role of the business model design” in the *Strategic Management Journal*.



WORK-LIFE

FOR MEANINGFUL WORK, SHARE REALITY AT HOME

“How was your day?” Talking to your partner at home about concerns at work could help foster “shared reality” with your partner, which, in turn, can boost the meaning you find at work.

The spillover effects between work and home lives are well documented: too much stress at work can cause conflicts at home, and vice versa; likewise, positive work environments can lead to happier home lives, and vice versa.

New research explores the effect of shared reality — the experience of sharing the same thoughts and feelings about the world with another person, specifically your romantic partner, contributing to feelings of closeness, support and commitment. When you talk to your partner about work things — anything from team dynamics to career goals — does your better half immediately “get it”? Through your

MARKETING

PERSONALIZE ADS WITHOUT BEING INTRUSIVE

For some, seeing an ad for a product pop up in your social media feed right after you had been searching for it online might be a welcome reminder; for others, it might feel intrusive. The practice of “retargeting” (advertising to individuals who have previously visited a website or shown interest in a product) can be a powerful tool — if advertisers strike the right balance between personalization and context. The right message with the right placement can ease that feeling of intrusiveness and lift conversions by as much as 17% for some product categories, particularly those with customization potential, including technology, apparel and transportation.

Collaborating with a European carmaker, researchers divided over a million online users into groups of new and retargeted clients, and exposed them to a variety of

advertisements, both in context (on car-related websites) and out of context (on news or celebrity gossip sites). They found that ads placed on related sites were generally more effective, but especially so for retargeted clients, underscoring the importance of context.

Content matters, too. Retargeted ads that offer a chance to customize product features are perceived as relevant and helpful when also placed in context, whereas customization prompts on websites outside of the (in this case, car-shopping) context are perceived as intrusive. Users who worry about privacy are even less likely to be pleased by customization prompts, regardless of context.

To optimize their ad spend, marketers shouldn't leave it to automated algorithms. Instead, they must develop a nuanced understanding of online behavior, paying careful attention to the context in which ads are displayed. Metrics such as engagement and conversion rates, which capture intent closer to the point of purchase, offer more meaningful insights than website visits.

Marketers must also be mindful of people's privacy concerns, keeping customization efforts focused on websites where they make sense and don't feel invasive. In this way, advertisers can drive more effective campaigns. ●

discussions, do you both feel on the same page?

If so, you may start to find your work becomes more meaningful, as the shared reality you experience away from the office can have profound implications for your subsequent experience of work. You may feel more certain about how to approach a new project or how to delegate different tasks.

Consider the extent to which you share thoughts and feelings about coworker dynamics, management styles and career goals with your partner. Apart from how this might help nurture your romantic relationship, it might also help you create a greater sense of meaning that transcends the daily grind. ●



Catalina Enestrom **Maya Rossignac-Milon**

Q “Meaning-making with romantic partners: shared reality promotes meaning in life by reducing uncertainty” in the *Journal of Personality and Social Psychology*.



Albert Valenti

Q “Combining ad targeting techniques: evidence from a field experiment in the auto industry” in *Management Science*.

DISCLOSURE

YOU GET WHAT YOU ASK FOR

Environmental and social (E&S) disclosure is getting increasingly political – by 15% according to a recent study. Research by IESE’s Gaizka Ormazabal, with David Schroeder from Copenhagen Business School, reveals a strong, consistent link between U.S. politicians’ ideological stances and three key actions in the process of making E&S disclosure rules: voting, cosponsoring legislation and sending letters to the Securities & Exchange Commission (SEC). Indeed, ideology determined voting 95% of the time, with the most liberal lawmaker approximately three times more likely than the most conservative one to vote in favor of E&S disclosure regulations, whereas the most conservative lawmaker was four times more likely than the most liberal one to comment against E&S disclosure rules, specifically on climate disclosure, in letters to the SEC.

What does this mean for climate-related reporting? Other research by Ormazabal, with Pietro Bonetti, Igor Kadach and Yang (Ellen) En, finds that, even in the absence of a legal requirement for companies to report on the environmental performance of all their suppliers, there may still be a way to get the information: asking for it.

When companies asked for environmental information, suppliers complied 52% of the time, despite having no obligation to do so. Those that provided information also reduced their emissions by approximately 2.5%.



Ideology determined
voting on disclosure
rules

95%
of the time

When asked for
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their emissions by

2.5%

Furthermore, when suppliers weren’t forthcoming with information, the probability of a company terminating its relationship with an unresponsive supplier increased by 1.4% and it was even more likely to sever ties with a high-emitting supplier. This trend was more pronounced among companies with more institutional shareholders or whose operations carried environmental risks.

All this goes to show how companies and their suppliers can make voluntary disclosures with subsequent environmental improvements – and leave the politics aside. ●



Pietro
Bonetti



Igor
Kadach



Gaizka
Ormazabal

🔍 “Climate disclosures and decarbonization along the supply chain” and “E&S disclosure regulation and political ideology.”

BANKING

CREDIT WHERE CREDIT IS DUE

When disaster strikes, how does a community rebuild? To prevent foreclosure, businesses will seek loans, but not all banks lend equally. You would think large, diversified banking groups would reliably extend credit, but not so, according to research on every business loan listed by the Bank of Spain between 2004 and 2017 before and after wildfires occurred.

Large banks tend to operate with a one-size-fits-all risk assessment model. And because they prioritize shareholders, they favor safe investments, making them shy about lending in areas with recent climate events. Small, local banks, on the other hand, have personal knowledge or “soft” information,

which helps them make more nuanced assessments of a local business’s ability to rebuild and repay the loan. And repay they do, as the researchers found their default rate was no greater, indicating that local banks’ screening decisions have positive ROI.

This credit lifeline has significant ripple effects: it allows businesses to rebuild, continue operations and retain employees. And this should be the goal of any financial system. To not extend credit means businesses will shut down, dealing another blow to disaster-hit local economies, leading to reduced tax revenues, lower economic activity and population decline as people seek jobs elsewhere. Indeed, the research noted these long-term consequences in areas where only outsider banks operated, whereas the opposite was true in places with a strong presence of local banks.

As the frequency and intensity

of disasters increase due to climate change, the idea that the big banks, with their diversified portfolios, can help spread the risk is not fully supported by this research; instead, it shows them disadvantaging local businesses and withdrawing financial support precisely when they need it most. Central bankers should recognize the value of “soft” information in credit assessments and encourage its use. Because when it comes to creating a more sustainable financial system, local banks play vital roles, too. ●



Carles Vergara

Xavier Vives

“Climate risk, soft information and credit supply,” with Laura Alvarez-Roman and Sergio Mayordomo from the Bank of Spain.



HELPING PEOPLE MAKE DECISIONS

PEOPLE CAN MAKE RATIONAL CHOICES FOR THEMSELVES...



SO LET'S HELP THEM.



SAVE THE PLANET!



THIS IS AN EXAMPLE OF PATERNALISTIC NUDGING...

EXPLOITING BIASES OR SHORTCOMINGS IN HOW PEOPLE MAKE DECISIONS, TO TRY TO GET THEM TO BEHAVE A CERTAIN WAY.



BUT THERE'S AN ALTERNATIVE WAY OF HELPING PEOPLE MAKE DECISIONS...

FACILITATING THE PROCESS, RATHER THAN FORCING OUTCOMES.



I THOUGHT YOU SAID RECYCLING WASN'T WORTH IT!

WELL, NOW I ACTUALLY UNDERSTAND WHAT CAN AND CAN'T BE RECYCLED.



IT'S NOT ABOUT PRESSURE. IT'S ABOUT HAVING THE FACTS.



I WILL FIX EVERYTHING

INSTEAD OF EXPLOITING PEOPLE'S BIASES, CREATE BETTER CHOICE ENVIRONMENTS.



YEAH, RIGHT. I DON'T BELIEVE ANYTHING THEY SAY. I'M NOT EVEN GOING TO VOTE.

LET PEOPLE MAKE WELL-INFORMED, AUTONOMOUS DECISIONS.



ALTHOUGH NOT ALWAYS PERFECTLY RATIONAL, PEOPLE CAN OFTEN PROCESS INFORMATION BETTER THAN WE THINK.

Empower people to make rational choices



Johannes Müller-Trede
Associate Professor of Managerial Decision Sciences at IESE Business School

When presenting choices to human decision-makers, focus on how to facilitate the process for them. People may not be perfectly rational, but they are more than capable of making rational decisions if given a chance. Here's what I suggest:

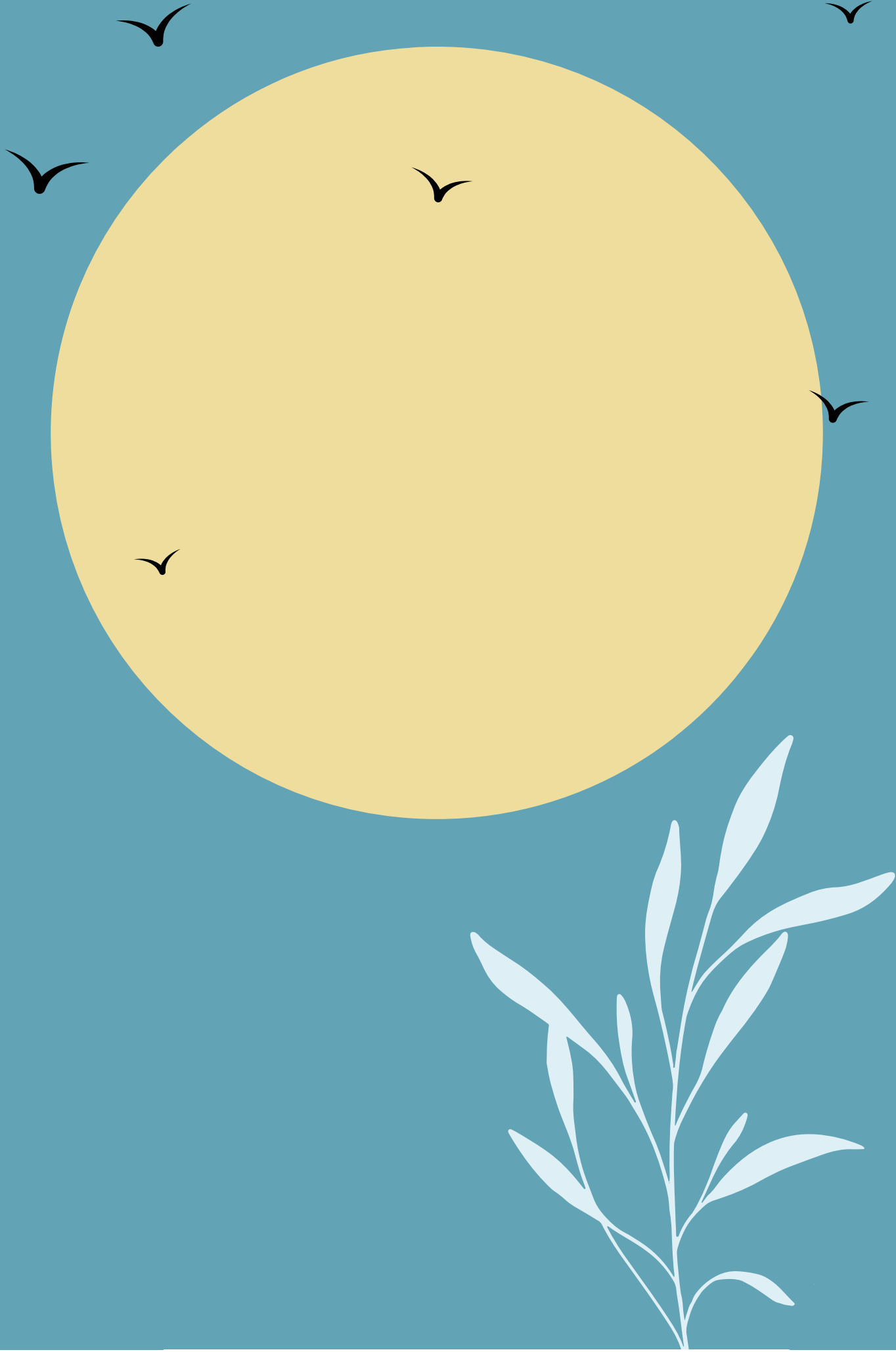
- ❖ Provide relevant information in the cleanest, most transparent and accessible way possible.
- ❖ Make it as easy as possible for the person to assess the pros and cons of a particular decision.
- ❖ Share your arguments for why you think one option is better than another. If that does not change people's minds, keep the education campaign going — if your arguments are good, consistent messaging can eventually make those arguments seep through.
- ❖ Above all, never lie or twist the information to mislead people into doing the thing that you want them to do.

I'm optimistic about the possibility of people being able to make reasonable judgments and decisions, rather than assuming people are essentially irrational, so they need to be paternalistically guided toward making the "right" choice. Appealing to decision-makers' potential for rationality respects their dignity and preserves their trust — a vital commodity in short supply that is worth encouraging today. ●

MORE


"Rational choice in context" in *Current Directions in Psychological Science* of the Association for Psychological Science.





THE POSITIVE WORKPLACE

Managing the future
with purpose and resilience



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Is the world a better place as a result of what you do?

An interview with
Dunia Reverter and
Dean Carter

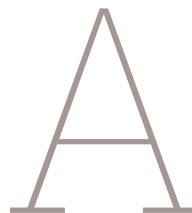
The inside-out approach to purpose

A framework to increase engagement and internal cohesion, creating win-wins for stakeholders that drive business results.



John Almandoz

is a Professor of Managing People in Organizations at IESE Business School and holder of the Juan Antonio Perez Lopez Chair, named after IESE's late former dean, whose forward thinking on transcendent purpose as a motivating force for business is even more relevant today.

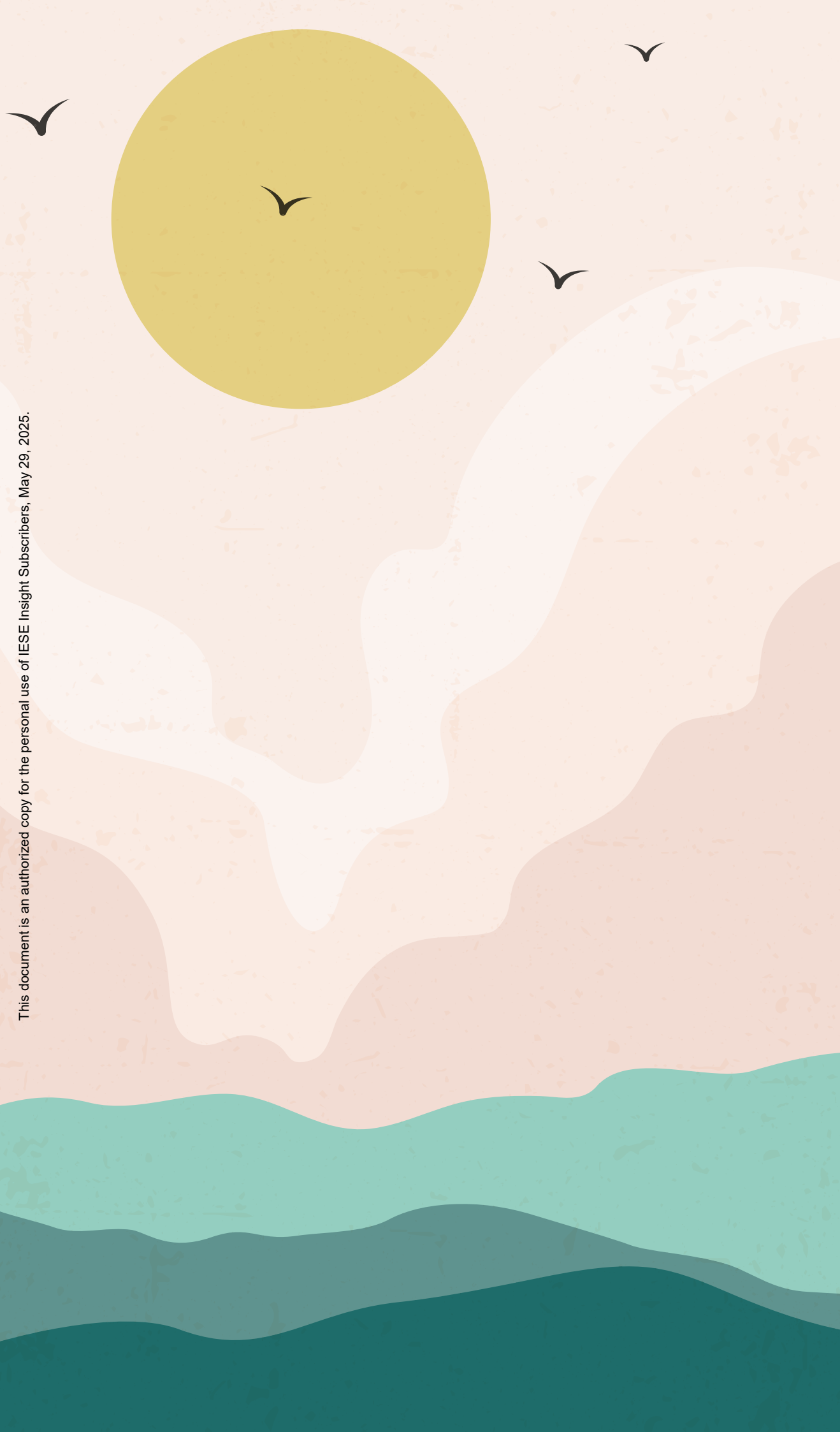


Are our institutions cracking under pressure? Considering the threats we face — including war, climate change and rising inequality — our states and corporations seem unprepared for the level of collaboration and goodwill needed today. Even the family and the community seem to be crumbling as institutions, lacking the moral glue to hold our divided societies together.

Preparing for an IESE Business School conference on the legacy of our former dean, Juan Antonio Perez Lopez, I came across early writings of his in which he anticipated this broken state of affairs unless an adequate “control mechanism” were to be found — one that maximized human flourishing alongside business prosperity. He recognized that, more than self-interested material desires or legal requirements, people were motivated by transcendent needs that could only be satisfied by contributing to the welfare of others.



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The trend we have seen of companies measuring their performance using environmental, social and governance (ESG) criteria is in line with this vision, even if there is disagreement over aspects of these priorities. It underpins the movement toward “corporate purpose,” which gained momentum following the 2008 global financial crisis. And though lately we have seen some companies backing off their prior public commitments to ESG goals, I still believe uniting around purpose is the best hope we have to mend our broken world.

Inside-out explained

Broadly speaking, corporate purpose can be understood through two perspectives: an outside-in approach, which emphasizes responding to external societal and systemic

challenges; and an inside-out approach, which focuses on how a company’s internal values and member motivations shape its daily operations to serve customers.

The outside-in approach positions corporate purpose as a tool to help address important global challenges, such as climate change and social justice. But this approach can become coercive and thus politically charged. Since systemic challenges involve government policy, private and political interests come into play, raising the potential for disagreement both within and outside the organization.

A lesson from the recent backlash against ESG and DEI (diversity, equity and inclusion) is that when the societal stakes for different purposes are high, it is important not to run too far ahead of the electorate and to engage instead in transparent deliberation with slower moving dissenters.

The inside-out approach views purpose as a powerful driver of passion and energy, aligning employees’ personal values with the organization’s overarching goals and the service it provides to its customers. A key advantage of the inside-out approach is its ability to foster unity, both within the organization and with external stakeholders, as it is freely chosen by all and is less likely to spark

disagreement. That unity and inspiration should, in turn, bring greater engagement and productivity.

While an inside-out purpose for corporations has many advantages in driving engagement and internal cohesion, it is not easy to draw all motivational strength from it in an organization that also expects business results. To be sustainable, purpose not only needs to be thoughtfully internalized but it also needs to be implemented effectively. Here’s how, using a framework co-developed with Carlos Rey of the Universitat Internacional de Catalunya (UIC) in Barcelona:



The inside-out approach views purpose as a powerful driver of passion and energy



1

Define

Defining a purpose is the intellectual foundation. It involves identifying a clear and compelling reason for the organization's existence that resonates with its stakeholders. Purpose must answer fundamental questions: Why do we exist? How do we contribute to our customers or to the world?

2

Internalize

Purpose must be embedded deeply within the organization's culture, values and identity. This step connects purpose to the emotions and motivations of employees, creating a shared sense of meaning and belonging.

3

Act

Purpose must be translated into tangible actions, informing the organization's processes, decisions and operations.

Implementing purpose is a dynamic interaction of the head, heart and hands to create win-wins for multiple stakeholders

In short, implementing purpose is a dynamic interaction of the head, heart and hands to create win-wins for multiple stakeholders, including any shareholders. In this way, companies can still be financially successful without making profit maximization for shareholders their sole defining objective.

Purpose in action

Let's consider an actual example. ISS is a facility support services company. It defines its purpose as "connecting people and places to make the world work better." By framing its purpose as an enabler of better work and life experiences for people, ISS ensures it is both inspiring and strategically aligned with its business objectives. This serves as a guiding principle for decision-making. This is the head part of purpose.

ISS also engages the heart by fostering an emotional connection to the purpose. For example, through its Thank You Way initiative, managers and clients send tokens of gratitude to employees. This fosters a culture of appreciation, recognition and community.

ISS also trains employees to view their roles as opportunities to create positive experiences for clients and end users. This helps ensure that the purpose is reflected in every task, from cleaning offices to managing facilities. By making purpose actionable (hands), ISS demonstrates the purpose isn't just an abstract ideal but a practical guide for daily work.

This model encapsulates Perez Lopez's vision of employee motivation, leadership and organizations — a strategy to build trust, to bring out the best in employees as people, and to address the real needs of customers and society.

For Perez Lopez, the definition of good leadership is developing people, one by one, and uniting them in their daily operations around a transcendent purpose, which includes but goes beyond attaining business results. It also involves building people up and being service-oriented. This kind of leadership is transformative, lending meaning and uniting the organization better than the neoclassical economic alternative, which has shown its failings and contributed to the world we find ourselves in today.

As business leaders in a complicated world, we should seek to reconnect people around a greater purpose. And even when we fall short of our purpose, we will still be better off for having tried. I see business schools like IESE playing an important role by insisting on models of leadership, strategy and corporate governance that aspire to a higher purpose for a world in need of transformation. ●

MORE

"Inside-out and outside-in perspectives on corporate purpose" by John Almandoz. *Strategy Science* (2023).

A version of this article was published in Forbes. Read more insights from IESE Business School's global experts at www.forbes.com/sites/iese/





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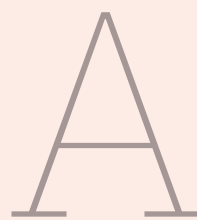


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Make happiness your business

How a chance encounter on a plane sparked a quest to uncover life's meaning. Arthur C. Brooks shares research-grounded tips to help your happiness levels soar.

Article by **Suzanne Hogseth**



Are you managing your life or is your life managing you? Are your actions aligned with your life's mission or at the whim of its ever-changing tides? Are you happy? Are you living the life you imagined as a child?

These are the questions that Arthur C. Brooks began pondering on an overnight flight a little over 10 years ago. A frequent business traveler, he was tapping away on his laptop when he overheard a conversation between two passengers seated a few rows behind him.

Judging by their voices and the depth of their exchange, he assumed they were an elderly couple. While the husband's words were muffled, his wife's cut through the silence of the dimmed cabin: "No, it's not true that no one remembers you. It's not true that nobody will take your calls. It's not true that no one cares about you anymore," she said consolingly.

A renowned social scientist, Brooks instantly shifted into professional mode, forming a quick assessment of the downcast passenger: *He's at the end of his life. Unlike me, he never had the chance to receive a world-class education or build the future he envisioned.*

Arthur C. Brooks teaches and writes on leadership and happiness.

His career never held the same promise. Life passed him by and now it's too late to change it.

It all made sense until the plane landed hours later in the early morning light. Far from Brooks' assumption, the forlorn passenger was, in fact, a world-famous personality who had helped shape the course of U.S. history in the 1960s and '70s. As people began shuffling up the aisles, the passenger was instantly recognized by his fellow travelers, as well as the captain, who greeted him warmly as he disembarked: "Sir, I want you to know you've been a hero of mine since I was a little boy."

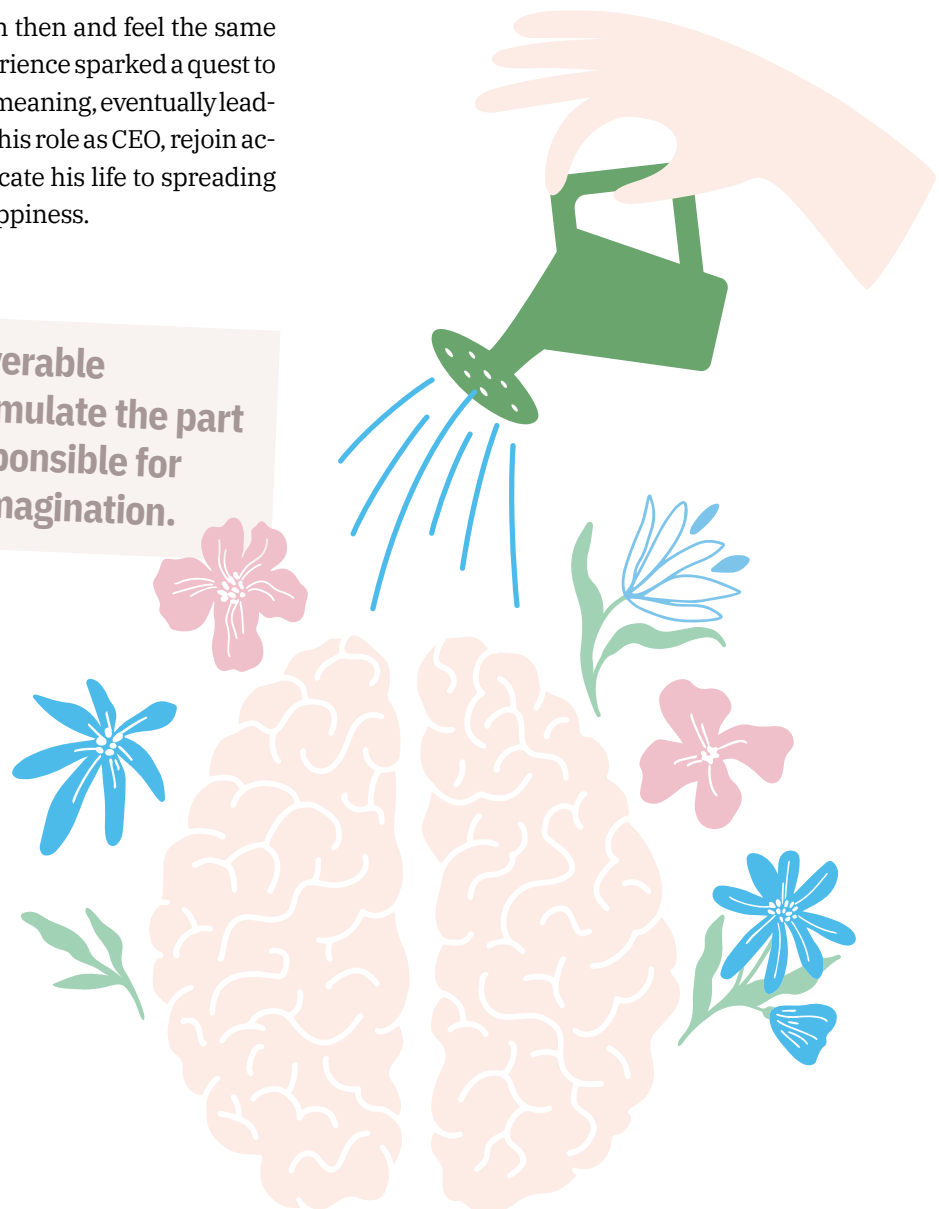
What began as a routine flight became a life-pivoting wake-up call for Brooks, who realized he didn't want to look back on his life 30 years from then and feel the same regrets. The experience sparked a quest to uncover his life's meaning, eventually leading him to resign his role as CEO, rejoin academia and dedicate his life to spreading the science of happiness.

Today an esteemed Harvard professor, sought-after speaker and bestselling author, Brooks is a regular guest speaker at IESE Business School, where he shares his insights and expertise. This article is based on two lectures Brooks delivered at IESE in November 2024, aimed at helping future business leaders forge their own paths to happiness.

The macronutrients of happiness

When people meet Brooks for the first time and learn that he teaches at Harvard Business School, many are surprised to discover that his courses include "Leadership and Happiness" – the school's most popular elective – rather than traditional subjects like marketing, finance or accounting. As he explains, "I teach happiness because that's the business of life."

Ponder unanswerable questions to stimulate the part of the brain responsible for creativity and imagination.



In his view, happiness — or “happier-ness” — requires striking a balanced and abundant mix of three macronutrients: enjoyment, satisfaction and meaning. Let’s consider each in turn.

ENJOYMENT

Not to be confused with pleasure, enjoyment emerges when the three main parts of our brain work in harmony to collect data, identify emotions and make informed decisions. While pleasure is a product of the limbic system, enjoyment originates from the higher-order prefrontal cortex, responsible for decision-making, reasoning, personality expression, social appropriateness and other complex cognitive behaviors.

“Pleasure is an intermediate stopping point but should never be the end goal,” advises Brooks. “Driven solely by the pursuit of pleasure, our lives would become unmanageable.”

In his definition, enjoyment is a blend of pleasure, people and memory — a formula that advertising executives know well. Consider beer commercials: their aim is to elicit positive emotions, which is why they typically show people drinking in community and in celebration, rather than someone drinking alone.

SATISFACTION

Humans are the only species that derive joy from reaching an objective. This means that, to feel a genuine sense of accomplishment, the success will be sweeter if it involves some element of struggle.

To this end, Brooks argues Mick Jagger had it all wrong when he sang, “I can’t get no satisfaction.” We can *get* satisfaction; we just can’t *keep* it. The brain’s drive for homeostasis and hedonic adaptation won’t allow it. As soon as our systems become used to certain stimuli and events that trigger an

Practice mindfulness by staying in the present and paying attention to what’s around you.

Take time to celebrate your achievements.

Follow a meditation practice to gain inner peace, enhanced focus and a deeper understanding of reality.

emotional response, we are hardwired to strive for more. Case in point: billionaires who, in order to maintain homeostasis, immediately try to earn another billion as soon as they amass their initial fortune.

Luckily, there are techniques to sidestep the hedonic treadmill and counter our natural tendency of always wanting more. These include emotional self-management, controlling where we focus our attention and adopting a “want-less” strategy.

To achieve the optimal satisfaction quotient, Brooks uses a math analogy, encouraging people to control for the denominator (the whole) rather than increasing the numerator (the fractional parts). Examine your desires, ambitions and attachments, and decide what you can live without. Think of your life as a piece of art: rather than being the painter who stands before the blank canvas, adding brushstroke after brushstroke, emulate the sculptor who chips away at the marble block, eliminating the excess to achieve the desired result.

MEANING

“What’s the meaning of life?” Brooks says this is the wrong question. Instead, it should be “What’s the meaning of meaning?” Meaning — as in meaning in life — is a combination of coherence, purpose and significance.

What’s the significance and the importance of *your* life? Why are *you* here? These are questions only *you* can answer, but Brooks offers several guideposts.

In our search for meaning, people often use complicated tools to solve complex problems. “Have you ever noticed that dating apps and Zoom meetings leave people feeling even more alone, isolated and depleted?” asks Brooks. “This is because the issues that matter most to us — love, companionship and connection — are inherently complex and impossible to simulate with technology.”

In today’s age of information overload, the path toward meaning requires going back to the starting line before any progress can be made. Brooks suggests several strategies to decluttering the mind. These include digital detoxes, mindfulness practices, phone hygiene and leaning into boredom. By allowing our minds to wander, we are better poised to tap into our innate creativity — an essential quality for today’s innovative leaders.

Embrace boredom and let your mind wander.

Set aside time every day to be tech-free and do digital detoxes during the weekend.

Convene with nature to cultivate a deep sense of awe and connection to the natural world.

Habits to raise your happiness levels

The most compelling explorations of happiness began in 400 B.C. with Aristotle. In modern times, many credit the Harvard Study of Adult Development for putting it on the map today. Launched in 1938, it tracked the lives of 724 men over 80 years to better understand the primary drivers of human happiness and wellbeing. Its findings were clear and conclusive. In the words of its current director, Robert Waldinger, “Good relationships keep us happier and healthier. Period.”

As the study attests, the keys to living a happier life are within our reach. The set-point theory of happiness backs these findings, concluding that about half of our baseline happiness is determined by genetics, 10% by life circumstances and the remaining 40% by intentional actions. This breakdown gives us ample room to manage our own happiness levels.

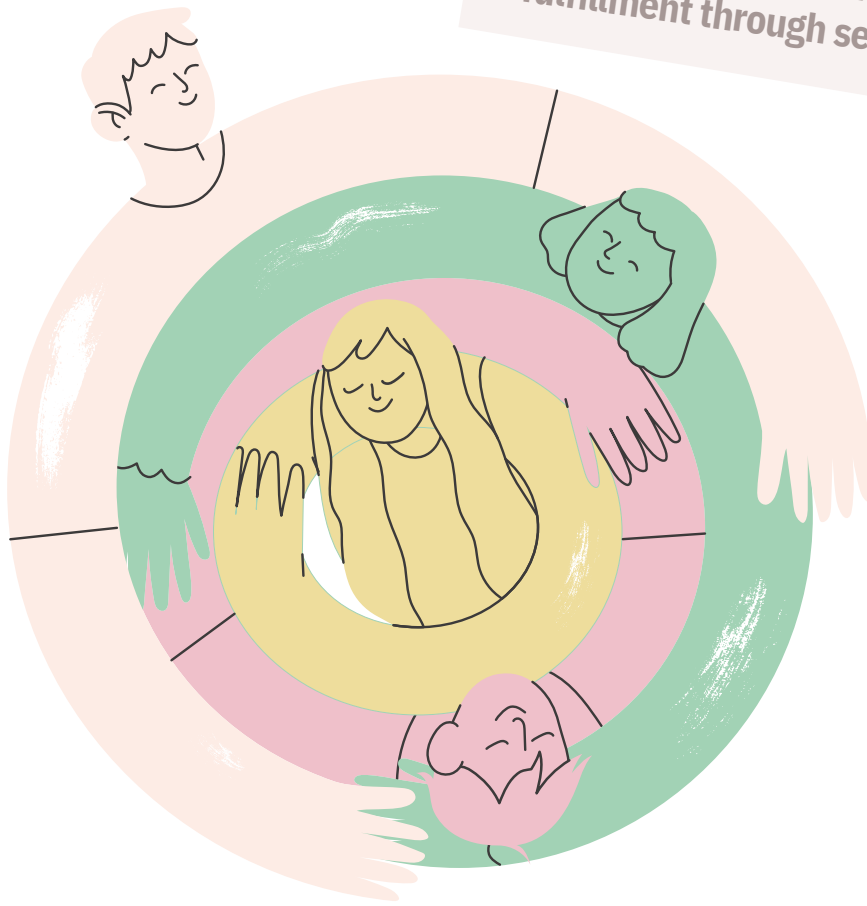
In this regard, Brooks says that developing habits in four spheres — faith, family, friendships and work — empowers us to influence the happiness within our control.

FAITH

More than a specific religious doctrine, faith is a force that transcends the self and allows us to see the bigger picture. While it goes against our natural human tendencies, our ability to see life through a wider lens helps us admit our smallness in the grand expanse of the universe and reminds us that life is more than our personal struggles and dramas.

Brooks mentions ways to achieve transcendence in our daily lives beyond adherence to specific religious practices (though that also helps). These include meditation practices, reading the works of Stoic philosophers or delighting in the fugues of Johann Sebastian Bach, among others.

Do acts of service to put others' needs before your own and gain fulfillment through selflessness.



FAMILY

Mysterious and mystical bonds emerge in the intimacy of kin-based relationships. As Brooks explains, “Homo sapiens are a kin-based, hierarchical species, meaning that we are neurologically hardwired to not walk alone. It can be explained by oxytocin excreted in the brain, the ‘neuropeptide of love’ that gives us an intense sense of well-being when we are with family.”

That said, he recognizes that challenges surface even in well-adjusted families, especially when it comes to conflict, compatibility, forgiveness and honesty. Except in cases of abuse, he encourages people to nurture their family relationships in all their complexity, accepting their flaws and imperfections, and viewing them as opportunities for growth.

The topic of family is deeply personal for Brooks. “One of my greatest regrets is losing connection with my parents.

They were both interesting and brilliant people, and both of them died young. As a teen and young adult, I thought I had all the time in the world with them, but sadly this wasn’t the reality.” His advice in a nutshell: make time for family because life is short.

FRIENDSHIPS

Brooks often works with CEOs of leading companies to help them enhance their organization’s overall happiness and well-being. Yet, in doing so, he sometimes finds they have an ulterior motive: wanting to increase their *own* happiness and well-being. Despite their success and the fact they are rarely alone, these top-level leaders are often the loneliest people in the company, he finds.

In his view, their tendency to cultivate “deal friends” as opposed to “real friends” might be a contributing factor. “Real friends are ‘useless’ in the sense that they are not utilitarian,” says Brooks. “Real friends, like family members, couldn’t care less about your job title, power or status. They simply love you for who you are.”

WORK

According to Brooks’ research, the intense satisfaction of meaningful work has nothing to do with money, educational degrees, stature, prestige and the admiration of others. At the intersection of work and happiness, only two characteristics are reliable sources of joy: earning your success and serving others.

To this end, he warns against loyalty-based systems or tenure tracks, which can undermine morale by incentivizing employees to ingratiate themselves with the boss to get the coveted promotion or outstaying their welcome in terms of impact and motivation. Merit-based systems, on the other hand, have the opposite effect, since they prompt leaders to define merits for their teams and then hold them accountable.

Going back to the earlier definition of satisfaction, people want to earn their success and, when motivated, reach higher levels of productivity for the benefit of the entire team or organization. This leads to the second key aspect of meaningful work, which is about service to others. This goes to the heart of human dignity: both feeling needed and serving needs. As illustrated by the downcast traveler, nothing brings greater despair than feeling overlooked, unwanted or unneeded.

When leaders embrace a spirit of service, they create opportunities for others to align with their mission and join a community where mutual, interconnected needs are fulfilled. At its core, service-oriented work represents the highest purpose of leadership and management: cultivating an environment of shared responsibility and collective growth.

Indeed, business leaders are uniquely positioned to act as “happiness teachers,” guiding the pursuit of passion and wellbeing within their companies and communities, all while recognizing that spreading happiness begins with the self. ●

The intense satisfaction of meaningful work has nothing to do with money; it’s about earning your success and serving others

**Arthur C. Brooks
joined forces with
Oprah Winfrey
to equip others
with the tools to
get happier.**

HARPO INC. HUY DOAN



Arthur C. Brooks

is a Professor of Management Practice at Harvard Business School, where he teaches courses on leadership, happiness and social entrepreneurship, as well as the Parker Gilbert Montgomery Professor of the Practice of Public and Nonprofit Leadership at the Harvard Kennedy School. He is a globally renowned speaker and the author of several bestselling books, including *Build the Life You Want*, co-written with Oprah Winfrey. His next book, on the search for meaning, will be published in 2026. www.arthurbrooks.com



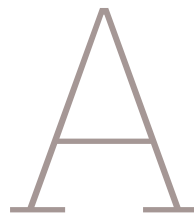
FROM
STRESS
TO
SUCCESS

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Change can threaten an employee's identity, leading to drops in performance, burnout and turnover. Here's what every company can do to check in with employees during times of change, managing transitions in ways that lower threat levels while boosting wellbeing.



Maily George is an Assistant Professor in the Managing People in Organizations Department at IESE Business School. Her own multicultural background inspires her research into how people deal with identity-threatening experiences and how this influences wellbeing in the workplace.



Anna is a 39-year-old professor who had been working in her university for eight years when COVID-19 hit. The pandemic shut everything down and classes moved online overnight. She felt like one of the lucky ones, though, as some of her colleagues were let go. Later, as the lockdowns eased, it became apparent things weren't going back to normal. The online teaching experiment had made the university rethink its entire educational offer and it decided that Anna's classes should continue to be delivered online for the foreseeable future.

Anna felt panicked. It was one thing to teach online temporarily, quite another to make that the permanent solution going forward. Pre-COVID, the university had looked down on online-only courses, regarding them as inferior to the in-person, high-touch campus experience. Now it seemed that no longer mattered. Anna herself preferred interacting with students on campus and the camaraderie with staff. Facing a future isolated from all that, Anna no longer knew what it meant to be a teacher. A former colleague who had left during COVID told her about a job opening in his university, where the teaching was in-person as before. Anna was seriously considering quitting.

Anna is fictional but the situation is real. Anna is facing an identity threat — an experience when a person's perception of who they are, the group they belong to, the relationships they have and their role in society is suddenly called into question, undermining what they thought they knew before. When this happens, the person, like Anna, may get stressed, feeling like they're not up to the new task required of them. To escape the threat, they may be tempted to quit their job or exit their profession entirely.

Teachers are one of the groups I studied as part of research with Karoline Strauss (ESSEC), Julija N. Mell (Erasmus University Rotterdam) and Heather C. Vough (George Mason University). Besides wanting to figure out what triggers identity threats, we wanted to come up with a way for researchers and managers to gauge what employees might be feeling, especially if there is a change as big as what Anna was anticipating. With that understanding, we suggest some actions managers can take to lower threat levels, helping people move from stress to success.

Triggers of identity threats

Teachers grappling with the prospect of online teaching were the first of three samples we studied. We chose teachers because their work-related identity threat will be familiar to many people similarly facing technological disruption to their current profession. Transformational and frequent change that challenges people's values and ways of working is a common trigger today.

Another common trigger is workplace incivility, linked to workplace norms and the culture in which such norms are formed and allowed to flourish.

Consider Fiona, a 32-year-old who works in finance, with 10 direct reports, all men. Her team is highly competitive, as a significant portion of their compensation is performance-related. They work long hours and never switch off, not at night, not on weekends and never during vacation — if they even ever take a vacation. As a young-and-hungry executive, Fiona was a rising star in the firm where she had been working for the last five years after being recruited straight off her MBA. Then, she got pregnant.

At 22 weeks, she could no longer hide the fact from her team. She felt their eyes on her in meetings. When someone mentioned they foresaw an imminent “bump” in business, she heard the sniggers. When the usual call went out

for ordering lunch, colleagues eye-rolled about not ordering sushi for her sake. They stopped inviting her for beers after work. Worse, they openly jockeyed to replace her once she went on maternity leave. One day she found one of her team in her office with his feet on her desk: “Just practicing,” he joked. “Let's face it, once the baby comes, you'll probably want to stay home and not come back. That's what happened to my wife. It's natural.” When she got angry, the other men on the team muttered, “Hormones.”

For this sample, we adapted our measures slightly to account for the unique threats faced by pregnant leaders. We also measured incivility and masculine contest culture (like the one described in Fiona's firm) through statements such as, “Since being pregnant, my supervisors, colleagues or reports have displayed incivility like putting me down or being condescending to me” and “In my work environment, admitting you don't know the answer looks weak.” We then assessed whether pregnant leaders were thinking about quitting, through statements like, “I frequently think about abandoning my leadership role.”

Although the subjects we surveyed were pregnant leaders, we can think of this trigger in broader terms of life-changing events. So, a person who sustains a physical injury that changes their ability to enact their previous identity (as other studies have explored, involving professional musicians who can no longer play their instrument after an accident, for example) would also fall into this category of triggering event.

The final set of triggers relates to workplace discrimination and microaggressions arising from nonwork identities — in other words, identities related to personal characteristics that are core to the person, such as their race, ethnicity, age, parental role,

Transformational and frequent change that challenges people's values and ways of working is a common trigger today

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TRIGGERS OF IDENTITY THREAT

- ❖ Frequent change
- ❖ Transformational change
- ❖ Workplace incivility
- ❖ Workplace norms/culture
- ❖ Workplace discrimination
- ❖ Workplace microaggressions

TYPES OF IDENTITY THREAT

- ❖ Threat to identity value
- ❖ Threat to identity meanings
- ❖ Threat to identity enactment

OUTCOMES OF IDENTITY THREAT

- ❖ Exit/turnover intentions
- ❖ Emotional exhaustion
- ❖ Task proficiency/performance

To help ensure your own organizational triggers don't provoke negative or undesired outcomes, it's vital to take the pulse of your employees

gender, religion or sexual orientation. For this sample, we added statements like, "I don't get paid as much because of my identity" and "I have had my behavior mimicked in a joking way due to my identity." We also included, "I often think about leaving my current employer," given that turnover intentions generally rise for this identity threat.

Subjective perceptions

There is no shortage of identity-threat triggers. There could be others, like a corporate scandal or a merger and acquisition. For our research, we sorted through myriad scholarship on the subject to develop a standardized grouping to measure this ubiquitous experience. By testing it with our three samples, we were able to ascertain that certain difficult workplace experiences are associated with certain outcomes. But the fact that workplace discrimination might provoke stress or turnover is no surprise; what's interesting is understanding how the person's processing of that trigger plays a role in the eventual outcome. With that insight, organizations are in a better position to manage such changes and workplace experiences according to how people perceive them, and take remedial action.

We validated three ways that a person perceives a difficult workplace experience:



- **As a threat to identity value:** the person feels their given identity is being devalued.
- **As a threat to identity meanings:** the person's current understanding of their given identity is no longer sustainable.
- **As a threat to identity enactment:** the person feels the new experience is going to limit or prevent them from expressing their identity as fully as they did before.

The subjective nature of the threat is important to consider here. That's because not everyone will perceive or react to the same workplace experience in the same way. For example, the introduction of new technology may leave one person feeling threatened while another might not. Additionally, a given experience, such as the introduction of new technology, need not generate all three types of identity threat: employees might find the meaning of their work changing yet at the same time feel no less valued and still be able to engage in activities and interactions that let them express their identity.

Moreover, it's not inevitable that when identity is threatened, people will automatically, say, quit or exit. They could still reframe the threat as an opportunity — a chance to learn

and grow — and subsequently reappraise their identity, deriving positive new meanings, value and expressions. For organizations wanting to help their people through change, this is the goal.

Taking the pulse

To help ensure your own organizational triggers don't provoke negative or undesired outcomes, it's vital to take the pulse of your employees. I recommend managers go through a similar exercise as we did in our study. Maybe you're thinking of implementing a change like switching from in-person to online working or, as is increasingly the case today, mandating remote workers come back into the office full-time. Or maybe you're rolling out AI software, which is radically restructuring people's work. It doesn't have to be anything radical, either: you may simply want to check in with people going through personal, life-event transitions; or maybe something is happening in the wider social and political environment that is affecting the way people perceive themselves and their identities.

Use our **sample survey** (right) as a diagnostic tool. Ideally, the survey would be done *before* any changes are announced to measure the pre-state of affairs. This gives managers a frame of reference to go back to when repeating the survey *after* the transition. This is helpful to understand how people's perceptions may have shifted and whether threat levels have gone up, down or remained the same.

These surveys are best done anonymously so employees feel able to express themselves truthfully. They could be done at the level of a team, a department, a business unit or be company-wide, administered by a manager or by HR, depending on the situation.

The aim is to tease out which identities are under threat: are they related to value, meanings, enactment or a mix? Drilling down into your employees' identity threats is indispensable for revealing pain points in the change management process. Depending on the nature of the identity threat, managers can then design and implement precise interventions – from helping employees regulate their emotions, to providing additional training or reskilling, to tackling any toxic behaviors, to improving workplace dynamics that boost everyone's wellbeing and performance.

Going back to our survey of teachers, knowing that online teaching threatened some in their *enactment* – their ability to engage in activities and interactions that let them express their teacher identity – the school could make some accommodations. Perhaps they could establish a space on campus where faculty could still go to interact with their students. Or maybe they could build a face-to-face component into the curriculum to serve the need for offline contact.



SAMPLE SURVEY

The following statements should be presented in randomized order, so participants do not see the items grouped. Approaching the same dimension from different angles lets you scale the answers, so you can tease out more accurate results. Statements can be adapted, like we did in our study, according to the nature of the change or threat.

Instruction:

- Please take a moment to think about the change in question. The following statements are concerned with how your identity as a [specify the identity] is affected by this experience.
- Please indicate the extent to which you agree or disagree with each statement on a scale of 1 (strongly disagree) to 5 (strongly agree).



① ② ③ ④ ⑤

Strongly disagree

Strongly agree

VALUE DIMENSIONS

I feel there's negative value attached to my identity as a [].

Being a [] is worth less in the eyes of others than before.

I feel others attach a negative value to my identity as a [].

I feel my identity as a [] is devalued by others.

I feel others see little value in my identity as a [].

 MEANING DIMENSIONS

I am no longer sure what it means to be a [].

I am questioning what it means to be a [].

What it means to be a [] is changing in a way I do not like.

Being a [] used to mean something different.

I feel being a [] doesn't mean the same thing anymore.

 ENACTMENT DIMENSIONS

I'm limited in my ability to express my identity as a [].

I may no longer be able to engage in activities that express my identity as a [].

I may no longer be able to show that I'm a [].

I worry about no longer being able to express my identity as a [].

I worry that I cannot show people that I'm a [].

There are various ways that organizations can allow people to continue with those behaviors that they cherish as part of their work identity – if they ask. It also requires probing their answers to get at the underlying value under threat. Is it because they associate the change with a loss of freedom or autonomy? Is it because they can't do parenting the way they really want to? It may not have anything to do with the actual change being proposed. Understanding all of these different facets helps in being able to provide appropriate solutions.

Finally, to maximize the effectiveness of the assessment, managers themselves need to be open to genuinely listening and sincerely dedicated to addressing employee concerns. For that reason, I recommend using our survey as a self-diagnosis tool. What makes *you* feel threatened? Reflect on whether it threatens you because of feeling undervalued, because of a fundamental disagreement on the meanings you ascribe to your identity, because your ability to enact your identity – to be your authentic self at work – is affected, or because of a mix of factors. It can be beneficial to do this self-check under the guidance of a professional mentor or coach. The better you know your own triggers and identity threats, the more sensitive and aware you will be in helping others through the same process. ●

MORE

“When ‘who I am’ is under threat: measures of threat to identity value, meanings and enactment” by M. George, K. Strauss, J. Mell and H. Vough is published in the *Journal of Applied Psychology* (2023).


 DUNIA REVERTER · DEAN CARTER

Is the world a better place as a result of what you do?

Dunia Reverter and Dean Carter share some positively empowering practices that have transformed their workplaces. Might they transform yours, too? Here, they discuss what it takes to build purpose-driven organizations where people have extraordinary experiences that enable them to say: “For what I put into this company, I believe it gives back equal or greater value to my life.” Could you say that about your company?

Dunia, you and your partners have developed a successful organizational transformation model. What are the keys for making it work?

DR: First is transparency — about salaries, about the strategy; people can access any of the meeting minutes and any of our governance forums. Transparency is an important foundation for trust. And trust is important for a company culture to flourish.

Because we trust people, we don’t seek to control them. The management is not top down. We respect people’s freedom, leaving them to work in self-managed teams and make their own decisions collaboratively. The recruitment and feedback are done 360. We decide collectively on decisions that affect everybody. For any business transformation decision, at least 80% of the people in the organization must have voted yes to it.

Because we firmly believe we are stronger together, if there’s a crisis, we buckle up and navigate it together. We don’t fire for economic reasons. Amputating a part to survive is not a good strategy. Having that safety, not having to live in fear, significantly changes the way people fight for their organization. Having a sense of shared ownership in our collective future is key for fomenting a long-term vision, rather than only ever looking for short-term results. It really pays off.

Dean, numerous surveys, especially among millennials and Gen Z, indicate a growing majority want to work for purpose-driven companies like this. What does this mean?

DC: It means people are stoked about working for a company that’s doing something in the world that makes a difference beyond making some rich guy



DUNIA REVERTER

is in the business of transformation. Her private equity firm, Krisos, buys up traditionally managed firms and transforms them into self-managed organizations.

**DEAN CARTER**

has decades of experience innovating people management practices across multiple companies, from Guild to Patagonia.



an even bigger billionaire! The purpose has to be genuine and authentic; it has to serve society; and its impact must drive long-term, not short-term, value. This implies running a company as if it's going to be around for 100 years. How would knowing you're going to employ the children of your employees change the decisions you make today? A purpose-driven company thinks in those terms and works to create a better world as part of its mission.

This represents a paradigm shift. How do people, particularly the bosses, react when you present them with this?

DR: One of the biggest problems in the world right now is the concentration of power and who holds that power and their refusal to give it up. When we acquired Indaero (a manufacturer of aerospace and medical parts in Spain), one of our first challenges was figuring out where to put all the bosses. These are the people who know the most about the company, so we need to appreciate the value they bring; at the same time, they are losing a lot of power, so we have to treat them with care, because we need their ongoing support to help the business grow. We mentored them, getting them to realize that the best way they could contribute was by spreading the decision-making and the responsibilities among a wider group of people in order to help their colleagues rise to the occasion and help the business grow.

DC: I remember the day when Patagonia founder Yvon Chouinard made *Forbes'* billionaire list: he hated it! His response was to set up a trust and nonprofit to give the company away and get himself off that list. Now, all the profit from Patagonia, after paying expenses and people and everything, will go to small, grassroots efforts to

save the planet, around the world, forever. And when you react positively and sustainably, when you do the right thing, you find your business ends up better off. This is absolutely true for Patagonia.

How do you manage this “relinquishing” process in a way that doesn't generate conflict, especially given the emotional weight around money and power?

DR: Once we create self-managed teams, we then let them calibrate their salaries collectively, so the whole process is bespoke to them. We make sure the salary differential between the top and bottom percentiles is never more than two times. We share the profit, with 25% of our net profit paid in bonus to everyone, not just to a few people, and we also agree with them how they want to distribute that, whether the same amount to everybody or proportional to the salaries.

DC: Instead of talking about pay and rewards, we focus on the entire employee experience. I don't know a single person who thinks having healthcare or childcare is “a reward.” If I'm sick or my child is sick, I'm going to have a terrible experience at work, so we think in terms of how to help people have an extraordinary experience in their circumstances. One way is through pay but it's only one





“One of the biggest problems in the world is the concentration of power, who holds that power and their refusal to give it up”

DUNIA REVERTER

element. For example, if you are a new mom and have to take a work trip, why doesn't the company pay for a traveling companion, so she can bring her baby with her and continue breastfeeding and have help throughout the trip, if that's what she needs. It's about changing the system to make it work for the people involved.

To my mind, the only question that really matters is this: “For what I put into this company, do I believe it gives back equal or greater value to my life?” You can discover a million things in terms of what's going on in your organization just by asking this single question. *That* is pay. Or rather, it's *value*, which means different things to different people in different parts of life. To someone who is single, that value looks different from someone with children or who is taking care of an elderly parent at home.

Besides reframing pay as “value to my life,” what other things can a company do to change its focus?

DC: At Patagonia, we compressed the work week, and every other Friday we either worked a half-day or closed the company entirely, which gave us 26 three-day weekends a year. Then, instead of doing an engagement survey, we did an experience survey. We never saw any statistically significant loss in productivity as a result of making this change,

yet we did notice some significant improvements. First, people drove less, which had a positive impact on the environment. We know because we measured the carbon emissions and gallons of gas saved per year, just by closing our company one day a week. We also discovered that employees reported a better relationship with their spouse. How many of you can categorically say that working for your company is improving your relationship with your spouse? That it gives you more time to spend with your kids? Or do you think of how many life moments you've missed with your spouse or kids because of work?

DR: We ask our employees what is important for them regarding benefits. These may look very different in each company. We look at it together for the budget: Can we afford it or not? And if we can, let's do it! It's not about what's important for me but about what's important for this organization and this particular group of people. We set the budget like this, collaboratively.

With this transformation, not only are we able to create better workplace experiences for people, but we are also able to achieve good financial results. At the moment, Indaero is doing better than budget, and we are going to give 25% of the bonus to the employees. The fact that everybody learns how to be a leader and gets a chance to participate in the decision-making means that, whereas before maybe only 10% of the organization would participate, now 50% participate. We've also gone from 22% to 52% of women in leadership positions. When you suddenly see a colleague of yours in leadership, and you know that next month or next year, that can be you, too — that's a huge leadership development boost.

What other systemic changes do you recommend?

DC: I've worked for two female CEOs (Rose Marcario at Patagonia and Rachel Romer at Guild) and one thing we did away with was negotiation on pay. The offer was the offer, take it or leave it. That's because men tend to be better at negotiating higher salaries for themselves. But we decided to be open, honest and transparent upfront and not negotiate. And when we did that, we saw a huge change in terms of pay parity for women at both places.

At Patagonia and Guild, we provide on-site childcare, and we pay higher than average, more like what you would pay a school teacher. Wouldn't you want to pay more for the people who are spending most of their time with your children? Likewise, for some of our warehouse workers, there were pay differentials that we didn't think were right, so we paid not just a living wage but a wage that would enable people to have a life.

Another thing we did was create leadership roles outside of the normal tracks. We are a highly distributed workforce, with clusters of employees working across the country,



“The purpose has to be genuine and authentic; it has to serve society; and its impact must drive long-term value”

DEAN CARTER



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and there is generally a community lead who organizes social activities for employees in a given area to help them be community together wherever they are. And just by having a community lead, we found belonging and engagement were sometimes higher among those groups than in the corporate office. After being in those roles for a year, many of those community leads get promoted.

We also paid for environmental internships. You could go anywhere in the world for three months for an environmental cause. This was another systemic way of helping people engage, because there's little chance an hourly worker could otherwise afford to take three months off work just to fly to Hawaii and save sea turtles, for instance. By the way, when those people come home and show their pictures to their family and friends, everyone else wants to work for your company. It's a growth opportunity as well as a magnet for talent.

How do you see this rippling out into the world?

DR: Gradually and organically. Once you get the basics straight – like salary, feeling it's fair, that it's enough and people don't have to count their pennies to make it to the end of the month – then you are free to start thinking big-

ger. Who are the next group of stakeholders to worry about? That's the next natural step, reaching out to customers and suppliers, considering what they need from us and what we need from them.

The thing I'm most happy about is that, when you actually give people the ability to own their own destiny, they begin to act responsibly, they start thinking outside themselves, without any push or demand from our side to do this. I'm seeing this happen, right before my eyes. Indaero decided to create a forum for ethics and sustainability; they decided to pursue certifications like ISO 14001 and do good for the planet for themselves. They know they can now steer the company to do things that are common sense for all humanity. I love it!

Any final advice on being a catalyst for change?

DC: If you're running companies or consulting companies, seek meaningful purpose and find it in your organization. Ask yourself:

- ❖ Is the world a better place as a result of what you do?
- ❖ Are you leaving things better than you found them?
- ❖ Are your people better off as a result of working for you? Are they healthier? Do they have better relationships with their families?

It's continuing to push the needle every single day. Because it is possible to do extraordinary things, to make a profit and not lose your soul in the process. ●

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Interviews originally published in *IESE Business School Insight* magazine (Jan.-April 2025).



WATCH VIDEOS
OF THEIR TALKS

Case Study

Netflix's culture is not for everyone. What's the best culture for your organization?

NETFLIX:

Could its radical culture work in your organization?



Yih-Teen Lee

is a Professor of Managing People in Organizations at IESE Business School.

In 1997, Netflix was simply a DVD rental company, known for its iconic red envelopes delivered to customers' mailboxes. Today, there are no envelopes in sight. With over 300 million subscribers worldwide at last count, Netflix has led the streaming revolution, transforming the way we consume movies and TV shows, and completely disrupting the entertainment industry. How did they do it?

Founder Reed Hastings will point to Netflix's distinctive culture. One of the key pillars of this culture is the lack of hierarchical decision-making. Instead of saddling employees with tons of rules, Netflix trusts them to manage their own time and make their own decisions, without constantly asking for permission. But this lack of rules doesn't mean a lack of responsibility. On the contrary, performance standards are extremely high. The company operates like a high-performance sports team: those who fail to make the grade are quickly let go with a generous severance package. This approach ensures that only the best stay on the team.

Fitting into this culture isn't easy. In his book *No Rules Rules*, Hastings describes the "radical candor" that defines Netflix's culture. Before making any decision, everyone is encouraged to express their opinions openly and directly, and anyone with something relevant to say is heard. When mistakes are made, the person responsible must publicly acknowledge those mistakes and analyze the reasons behind the failure. Such a culture boosts employee

motivation and job satisfaction as well as stimulating creativity and innovation — crucial qualities in ever-changing environments.

Instead of watching over their employees like hawks, Netflix's managers cast a clear vision of the company's goals, the current situation and the market, and then empower employees to make their own decisions in alignment with corporate interests. This approach allows autonomy, trusting that employees are skilled enough to act in ways that will benefit the company.

When reflecting on such a culture, the reaction is frequently: "This would never work in my company. If we did that, it would be chaos." And that may be true. Netflix's culture is not for everyone. The takeaway is that every company must develop a culture that suits its own unique identity, market, needs and business goals. The Netflix case shows the key role that organizational culture plays in becoming a powerful source of competitive advantage. The real question is: what's the best culture for *your* organization? ●

MORE

The business case study "Netflix: leading with a unique corporate culture" is available from IESE Publishing at www.iesepublishing.com

The Interview



MIGUEL ANGEL LOPEZ BORREGO
CEO of Thyssenkrupp

**“Be transparent
and decisive”**

When Miguel Angel Lopez Borrego became CEO of Germany's Thyssenkrupp in 2023, he came determined to transform the conglomerate into a leaner, more profitable and more sustainable organization by reducing its portfolio of companies and accelerating its green transformation. It's a bold vision for a company that's the product of a merger between two centuries-old German corporations, symbols of the country's postwar industrial expansion. Implementing that vision puts unique demands on a CEO, from negotiating with sometimes competing stakeholders while standing firm, to respecting the company's historical legacy while building a very different future.

In the midst of all this, a new political climate in the U.S. is shaking up geopolitics, rewriting transatlantic relations, and a new German government is breaking new ground on debt and defense. Against this backdrop, Thyssenkrupp Steel Europe announced a comprehensive restructuring plan in November 2024 to make the steel division competitive again. The plan includes capacity adjustments, site closures, staff reductions and a focus on green, sustainable production. Another important milestone was reached in April 2025 when Thyssenkrupp Steel Europe terminated supply contracts with its joint venture company, Hüttenwerke Krupp Mannesmann (HKM). This move, along with the planned sale of its 50% stake in HKM, is intended to give clarity and transparency for both companies and their employees. Another major action is the separation of Thyssenkrupp's marine business through a minority spinoff.

"This is all part of restoring confidence in the value of Thyssenkrupp," Lopez explains. Here, the straight-talking CEO explains the different steps and qualities that are needed for making this transformation happen.

What tips can you share from your negotiations for achieving win-wins with stakeholders?

The first thing is to be utterly transparent. It's not telling people what they would like to hear. In every company, there will be legends — a mythology around how the company used to be and a belief that it can continue to be that way in the future. But you have to be transparent about the real situation. And the fact is, the steel business is making losses. Of course, people will debate why the company got into this situation in the first place. There will be some people who will listen to you, believe you and follow you, and there will be others who will listen but not support or follow you. It's important not to be romantic about this. There will be some stakeholders whom you will never convince because it doesn't suit their agenda. The question is: How do you deal with these people? You may be tempted to make compromises with them, but that would be a mistake, because you would be poisoning the company's future development.

In sum, my advice is: transparency, information sharing, frank and honest debate, sorting out who is standing in which camp, and then not trying to find compromises with those who are not following your agenda, because that ultimately leads back to inefficiency, which is precisely what you are trying to avoid by entering into negotiation in the first place. This is when you need to be extremely calm but very, very decisive.

What about also being agile in the sense of being able to respond quickly as the information landscape changes? How have recent geopolitical shifts influenced people's thinking?

The complex, rapidly changing geopolitical situation makes it even more important to analyze the situation continuously and not jump to conclusions. Europe wanting to strengthen itself in terms of green transformation, digitalization, infrastructure and defense certainly offers great opportunities for our company, but there are also counter effects. Calls to maintain basic industries, such as steel, may slow down the necessary restructuring of the sector. That would certainly be wrong. Only a competitive steel industry can fulfill its role in Germany and Europe in the future. Moreover, you never know how the geopolitics will play out, which is why you have to be clear about your goals and stick with them. Adapting to long-term realities is an area where Europe really needs to do its homework, because our labor market, for example, is not very flexible.

Making the labor market more flexible will require policy changes. Do you find, as a CEO, you are having to engage more with policymakers in these areas?

The association representing German industries has written to the new German government to address the needs of the business community. I would like to think

that the political parties can agree a shared agenda to drive the economy back to growth and be much more business-minded. We are also addressing these issues directly to the European Union, through our participation in the European Round Table for Industry, which includes CEOs and Chairs from around 60 of Europe's largest companies in the industrial and technological sector to promote competitive, sustainable growth.

Business leaders need to be much more visible, and politicians need to put business and economic growth on the agenda much more than they have been doing so far. I see this type of engagement to be of growing importance. After all, our business strategies can only be executed in a context of favorable economic conditions; otherwise, our investments won't be as successful.

Besides engaging with policymakers, in what other ways do you see the CEO having to be more personally engaged?

At the level of leadership, I feel it's important for the CEO to demonstrate commitment. Even before signing my contract as CEO of Thyssenkrupp, I purchased shares in the company to signal to the other shareholders the seriousness of my commitment and to show that I am convinced of this venture. Why should I expect others to commit if I am not willing to put my own private money into the company, too? We are in this together, going after the same goals. If you're doing something that you say is going to be good for society, our people and the shareholders, then you need to put your money where your mouth is and be self-invested. This is private equity kind of thinking — of having a personal stake in seeing the venture succeed.

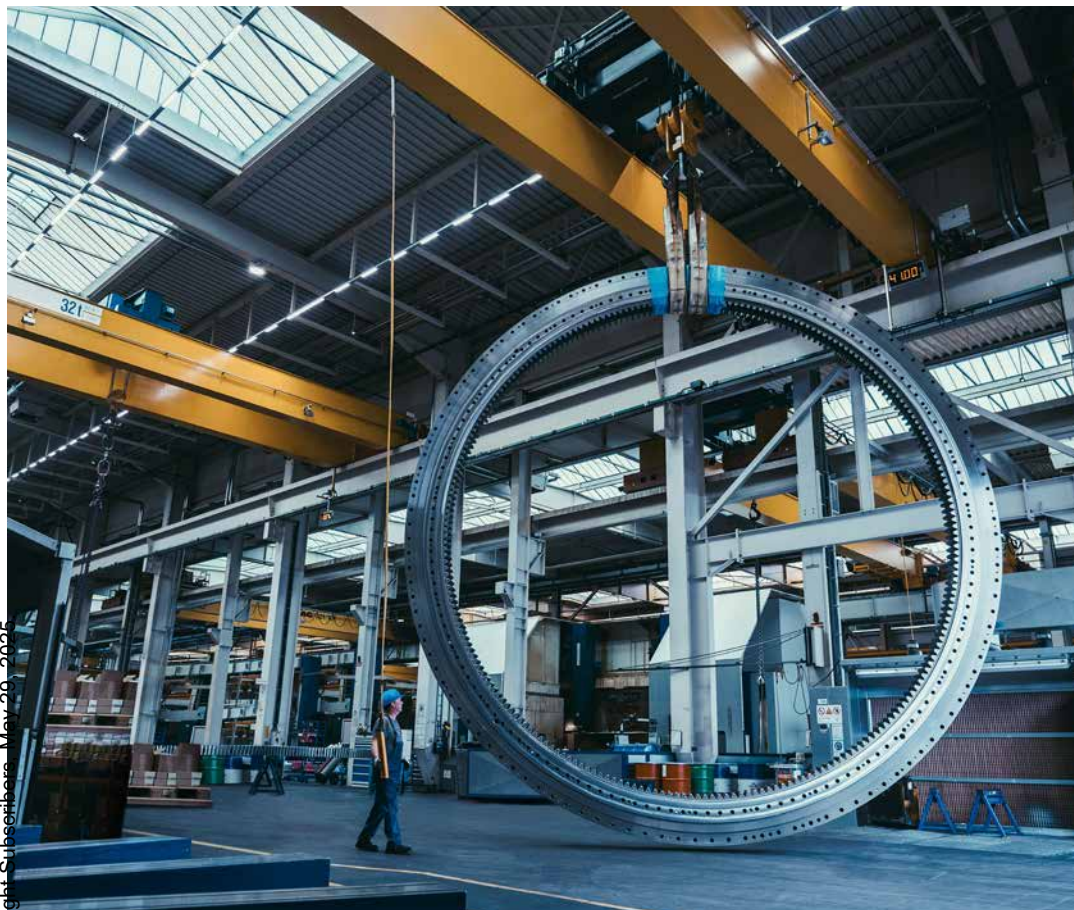
Which other leadership qualities are important?

I already mentioned transparency, which means being realistic with people and speaking the truth. Being agile. Alignment is also important. Every day our top management team has a call where we go over what happened during the day. This serves the purpose of being aligned, especially in such a difficult environment as now, ensuring that everyone is on board and committed to change.

Change is something that is easy to describe but complicated to achieve, because it's about human behavior, right? And behavior is something that you learn in a tribe, behaving as the tribe behaves. You need to be decisive when implementing change, but also observant, identifying the people who want to change and those who can't or won't change. We need real, straight, honest talk,

“You never know how the geopolitics will play out, which is why you have to be clear about your goals and stick with them”

MIGUEL LOPEZ



Thyssenkrupp is the world market leader for slewing bearings, which allow rotation in wind turbines.

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communicating as much as possible with my top management team, but also with others in all areas of the organization.

Regarding the green transformation pillar of your strategy, given current geopolitics, do you see the green agenda shifting, like we see some companies pulling back from prior ESG commitments?

Green transformation is a strong purpose of ours. The steel industry in Germany is responsible for around 7% of the country's CO₂ emissions, with Thyssenkrupp Steel Europe accounting for around 2.5% of that. That's enormous, which is why we must decarbonize our steel production.

Shortly after joining the company in 2023, I created a decarb technologies business, both to decarbonize ourselves and to help customers decarbonize. We foresaw strong market growth in green molecules. What seemed like a fantasy market at the time is today a reality: we have real projects with real customers, partners and banks involved. The shift to a sustainable economy is no longer a question of if but a matter of how quickly we can scale to meet the

demands of tomorrow's world. Now, this growth may be less steep than expected, but our goal remains the same, regardless of the government and current conditions. The transition to a sustainable economy is irreversible.

Anyway, the current talk is all about autonomy in energy and defense. And that, for me, is clearly in line with our business goals. The hydrogen economy is the real opportunity in the long term – not to be dependent on oil and gas 20, 30 or 40 years from now. We need to convince people of the urgent need to build up the hydrogen economy in Europe. This means producing, developing and selling energy in Europe for Europeans, and being super competitive in green electrons. We must finally start thinking on a European scale, not on a national scale. Then we will have a realistic chance of making Europe largely energy-independent over the next 20 to 30 years. And we can do this at competitive prices, not through subsidies. We need to seize this tremendous opportunity.

You were recently at CERAWEEK, the premier gathering of global energy leaders that takes place in Houston, Texas, every year. What's the view from the U.S. on this? I didn't see anything in the U.S. changing this agenda. Certainly, there may be some market slowdown and prices will not go down as fast as they might have, but to be honest I came away from CERAWEEK more inspired than ever. There is very strong talk about energy autonomy, which, as

I've said, is also an opportunity for us in Europe. The other thing that struck me was the topic on everyone's mind is artificial intelligence. Their feeling was that the U.S. is only one year ahead of China on AI, and they desperately don't want to lose that race. It's easy to think the Americans are crazy, but in reality, they are not crazy, they are following a clear agenda, and we need to understand that agenda.

We see U.S. companies like Microsoft, Google and Amazon investing in energy generation to power their AI data centers. To what extent is AI part of your future strategy?

Without wanting to exaggerate, it's fundamental – not as much as I would like, but it does play a role in different areas, such as the material services business where we do a lot of trading and transportation. We use a lot of data-driven services, automation and digitalization there, though we need to strengthen other areas, particularly in the use of robotics. The question for everyone is what the applications for all this AI should be.

Your marine spinoff includes non-nuclear submarines, where you are the world market leader as well as being the European leader for electronics and software in weapons systems, including torpedoes. With defense becoming a greater priority for Europe, do you see more AI applications in that space?

Defense will be one of the most important applications. In fact, most of the innovations of the world have originated from the defense industry. So AI will play a major role in innovation there, but the issue with defense applications is that they are not easily scalable. The bigger thing is finding applications in more scalable environments, generating new products and services. A drone used in combat is one thing, but it gets much more interesting when talking about flying cars, which are not as many years away as we think. ●

MORE

The business case study “Thyssenkrupp: Reinventing the German industrial giant” by Marta Elvira, Helmuth Ludwig and Jordan Mitchell is available from www.iesepublishing.com. The case was the subject of Roland Berger's 2025 MBA Case Competition, which has taken place at IESE Business School in Barcelona every year since 1995.

**Thyssenkrupp
is betting on its
marine spinoff as
defense becomes
a greater priority
for Europe.**

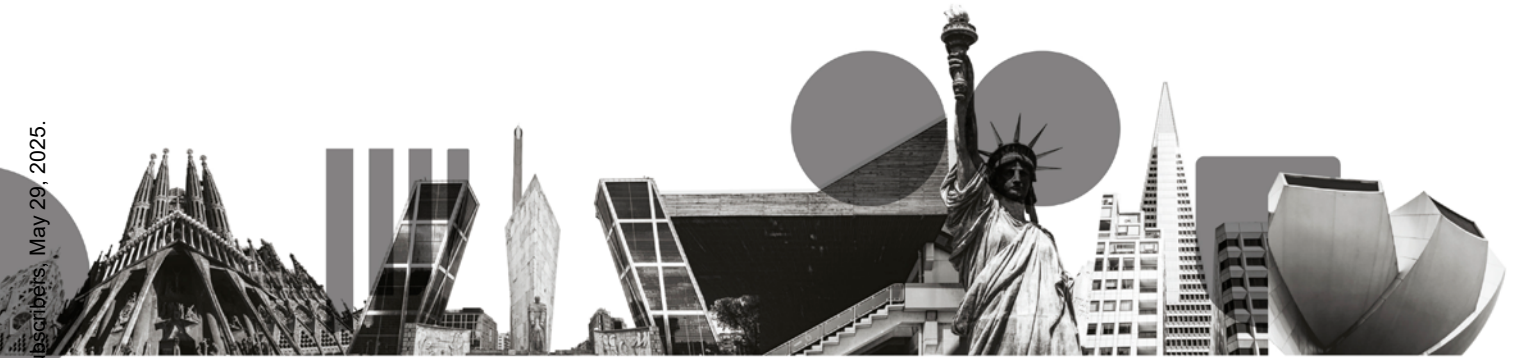
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THE POWER OF TECH LICENSING

Acquiring technology is only the beginning. Here are the keys to deciding whether to license it out, retain it or divest. Whatever you do, keep the value tethered to your firm.



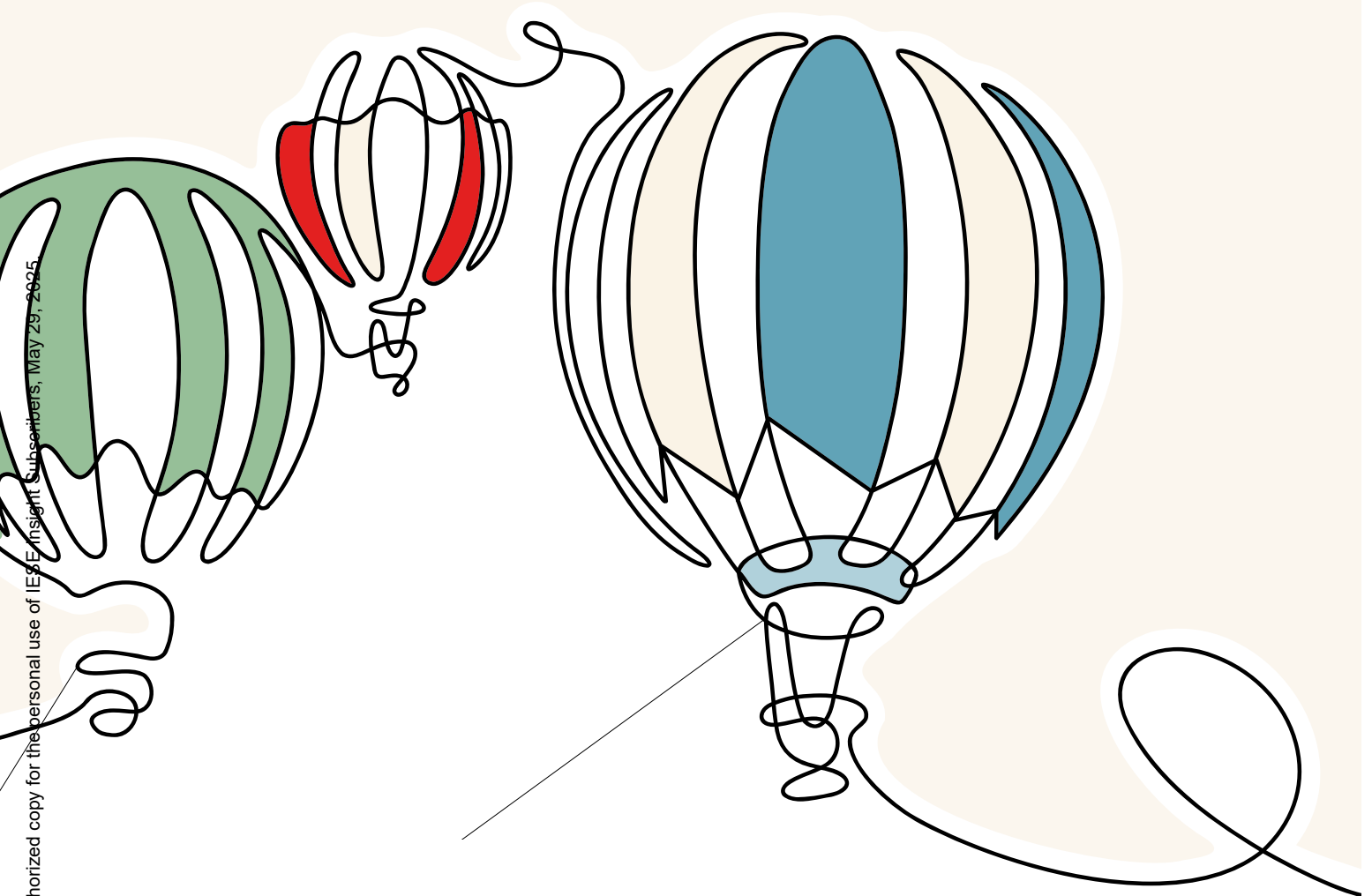
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Business
School.



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Between 2000 and 2024, the Swiss pharmaceutical company Roche acquired more than 32 tech-driven startups with the aim of gaining key capabilities to bolster its R&D efforts. It's a strategic move frequently made by major industry players, including Cisco, Qualcomm and IBM. They're looking to add technical expertise, intellectual property and cutting-edge innovations to their portfolios in order to maintain a competitive edge in their respective fields.

However, acquisitions also introduce well-documented challenges. Having an expanded portfolio opens up a raft of new issues. Managers must determine the best

course of action for the newly acquired technologies: which to retain, which to develop and which to restructure. Acquired firms may also have overlapping R&D projects, technologies and personnel expertise. This raises integration issues and coordination difficulties. And where redundancies and inefficiencies exist, managers must find ways to mitigate them. Failure to manage these transitions effectively can result in wasted resources and erode competitive advantage. No wonder acquisitions generally have failure rates of between 70% and 90%.

For a tech acquisition to really add value and become a strategic advantage, managers must learn the best way to navigate the process.

The managerial trade-offs

Integrating new resources into portfolios involves inherent trade-offs. First, managerial attention is limited, so firms cannot possibly develop everything, especially after adding new R&D projects through an acquisition. To keep the R&D pool trim and avoid investing too much in technologies and applications that are overly broad, firms may have to balance trade-offs such as choosing to terminate certain projects or divesting certain assets they no longer deem valuable. However, doing so can be financially and strategically costly.

R&D is an intrinsically uncertain activity. Discarding assets runs the risk that they might later turn out to be highly valuable. A classic example is Xerox, a historically active acquirer, which held on to some technologies but spun off companies like Adobe and 3Com — decisions that proved to be strategically costly in retrospect.

Reconfiguration is an alternative to divestiture. Instead of subtracting, firms may opt to add resources through a strategic reconfiguration of acquired assets with existing ones. However, the challenge remains: what if the firm proceeds down a new path only to find out later that it leads to a dead end?

Licensing as a solution

Discovering the best ways to make the most of tech resources post-acquisition has been the subject of our research.

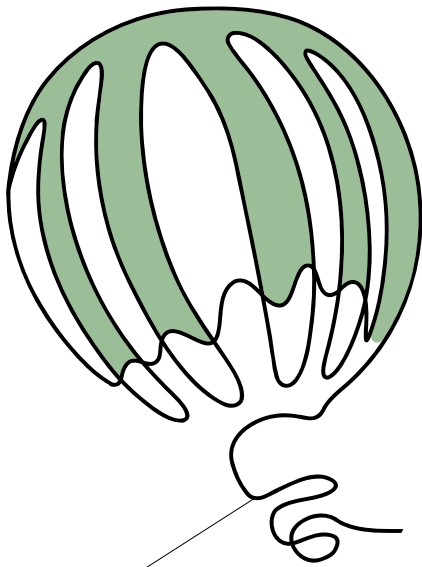
In “Understanding the link between post-acquisition resource reconfiguration and technology out-licensing,” published in the *Journal of Management Studies*, we studied how firms in the biopharmaceutical industry use tech licensing as an alternative to divesting or shutting down R&D projects entirely.

Rather than eliminating technologies outright, acquiring firms seek external partnerships and they “license out” their tech to these partners. This allows them to capitalize on innovation without bearing the full cost of development and commercialization themselves. Among the firms we studied, we found that, in the year following an acquisition, they increased their tech licensing activity by approximately 12%.

It’s important to note that out-licensing isn’t the only answer. It is possible for firms to keep the tech in-house yet not have to shoulder all the development costs themselves. We documented this in another study (“Market for technology 2.0? Reassessing the role of complementary assets on licensing decisions” by Solon Moreira, Thomas Klueter and Aman Asija, published in *Research Policy*). Firms can contract services via Contract Development & Manufacturing Organizations (CDMOs), allowing much-needed flexibility to reconfigure and develop projects internally,

Unlike divestitures,
which sever ties
with the technology,
licensing agreements
allow firms to
maintain some level
of influence





In the year
following an
acquisition, firms
increased their tech
licensing activity by
approximately

12%

without having to completely out-license strategically important tech capabilities to external partners.

The key in both cases is that firms retain ownership of their tech while transferring development and commercialization costs to others. In addition to the flexibility this offers, licensing generates revenue through fees and royalties. Unlike outright divestitures, which sever ties with the technology, licensing agreements allow firms to maintain some level of influence over its future trajectory. By choosing licensing over divestiture, firms also hedge against uncertainty: If a licensed tech proves highly successful, the original firm retains options for renegotiation or reacquisition.

Ligand Pharmaceuticals is an example. Following its acquisition of Vernalis, it strategically out-licensed several acquired assets. As the CEO noted, the acquisition provided additional assets with potential licensing opportunities, allowing the company to monetize its tech while maintaining strategic options. This approach enabled Ligand to expand its financial and technological footprint without overextending its internal R&D resources.

Our research in the *Journal of Management Studies* further highlights the prevalence of this practice. The ratio of licensing deals to technology-based divestitures stands at approximately 15-to-1, underscoring the strategic importance of licensing as a post-acquisition reconfiguration strategy.

This trend reflects the growing recognition that firms can extract long-term value from acquired innovations without relinquishing ownership. Instead of viewing non-core assets as excess baggage, successful acquirers strategically license them to external players, ensuring continued development while maintaining financial and strategic benefits.

In industries where technological uncertainty is high, licensing offers a viable alternative that balances control, flexibility and financial return.

When to out-license?

Despite its advantages, licensing is not a universal solution. Similar to divestitures, licensing can create long-term risks, particularly if the technology gains significant market value and strengthens external players who later become dominant competitors.

A prime example is IBM's licensing of its PC architecture to third-party manufacturers, including Compaq and Dell. Initially, this strategy helped IBM establish industry standards and expand market penetration. However, as these licensees refined and innovated upon IBM's technology, they eventually outcompeted IBM itself, forcing the company to exit the PC market entirely.

This illustrates a key risk of licensing: While it can reduce development burdens and generate immediate financial returns (the median upfront payments in licensing to preclinical biotechs can be around \$50 million), it can also erode

a firm's competitive position if external partners gain a disproportionate share of market power.

Our research suggests that firms are less likely to license newly acquired technologies when there is significant uncertainty about their long-term value. High-uncertainty environments, particularly in industries with rapid technological evolution, make it difficult to predict whether a licensed technology will become a critical competitive asset or an obsolete innovation. In such cases, firms prefer to retain control, opting to internally develop or test different applications before making external commitments.

Additionally, companies with strong financial resources tend to delay licensing decisions, using their capital to explore multiple technological pathways and assess potential synergies with existing R&D efforts. This cautious approach ensures that firms do not prematurely cede valuable technologies to external players before fully understanding their strategic implications.

Moreover, firms may also limit licensing if the technology is integral to future platform-based strategies or ecosystem control. In sectors such as pharmaceuticals and artificial intelligence, where proprietary advancements can define industry leadership, companies often keep promising technologies in-house to maintain exclusivity and sustain long-term differentiation.

Thus, while licensing remains a powerful post-acquisition tool, firms must carefully weigh its short-term benefits against potential long-term competitive trade-offs.

5

KEY FACTORS FOR OUT-LICENSING DECISIONS

To help managers decide whether to out-license, retain or divest an acquired technology, we recommend carefully considering the following five factors.

1

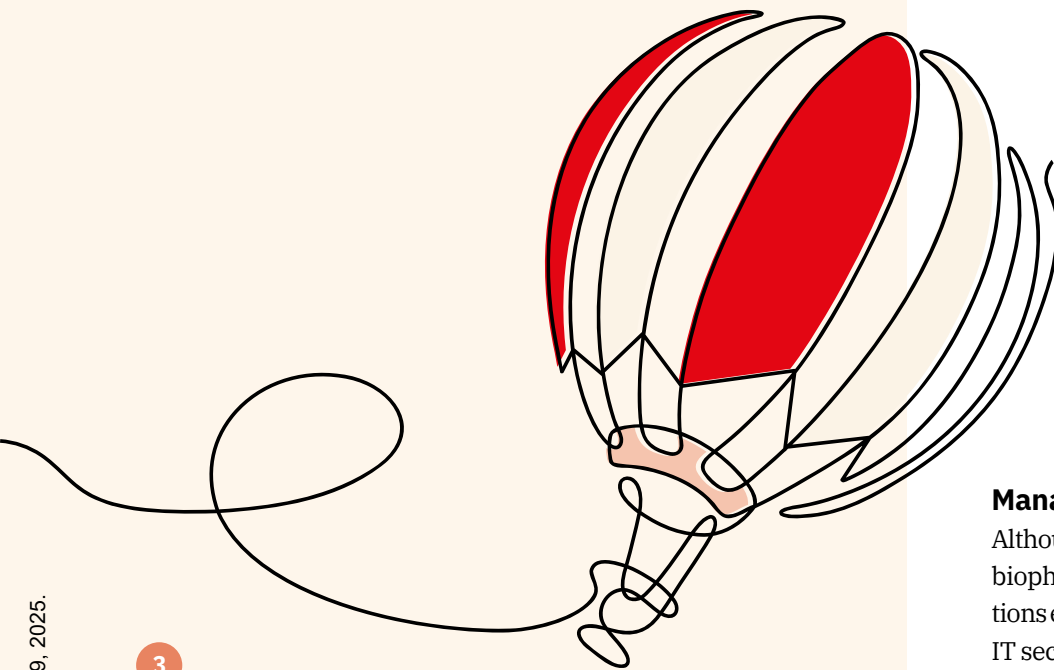
UNDERSTAND THE TECHNOLOGY AND ITS APPLICATIONS

Managers must assess the long-term strategic value of a technology before licensing it. A strong grasp of its potential applications allows firms to craft more effective licensing agreements that protect their interests while benefiting from external development efforts. Retaining some control over the technology enables firms to capitalize on unforeseen breakthroughs.

2

EVALUATE FINANCIAL CONSTRAINTS

Limited financial resources can restrict a firm's ability to develop all acquired technologies. Licensing can serve as an alternative to costly in-house development, allowing firms to monetize their technology without bearing the full financial burden. This consideration is particularly relevant post-acquisition, when integration costs are high.



3

RETAIN KEY R&D TALENT

If the technology is closely tied to specific R&D personnel, licensing can help retain critical institutional knowledge while establishing collaborative partnerships with external firms. In the case of Adobe, Xerox lost key engineers when it spun off the company, ultimately losing access to a breakthrough technology.

4

CAPTURE STRATEGIC FUTURE VALUE

Well-structured licensing agreements can enable firms to benefit from future improvements made by licensees. By including provisions that ensure continued collaboration or future revenue-sharing opportunities, companies can maintain a foothold in evolving technological landscapes.

5

INVOLVE THE RIGHT DECISION-MAKERS

Tech licensing decisions should not be made in isolation. Managers need to involve multiple stakeholders, including the CEO, the board, R&D leadership, legal teams and even external advisers where necessary. The CEO and board typically assess strategic fit and long-term value, while the R&D team and engineers evaluate technological feasibility and potential innovation trajectories. Legal teams ensure robust agreements that protect intellectual property, mitigating risks of future competitive threats. Effective collaboration among these stakeholders ensures a well-rounded decision that aligns with corporate objectives.

Manage it well

Although the focus of our research was the biopharmaceutical industry, the implications extend beyond that one industry. The IT sector, for example, faces similar challenges when managing intellectual property portfolios post-acquisition, with Qualcomm and Cisco, as mentioned, regularly using licensing as a means to optimize R&D investments while maintaining their competitive edge.

But licensing is not without its risks, so managers must weigh the potential consequences, as we have highlighted, before committing to this strategy.

Ultimately, the decision to keep, license or divest a technology hinges on a firm's ability to assess its financial capacity and the strategic value of the technology to the firm's long-term goals. By carefully considering these factors, managers can optimize post-acquisition R&D reconfiguration and maximize the value of their technological assets. ●

MORE

“Understanding the link between post-acquisition resource reconfiguration and technology out-licensing” by Thomas Klueter, Solon Moreira and Clinton Ofoedu. *Journal of Management Studies* (2024).

“Market for technology 2.0? Reassessing the role of complementary assets on licensing decisions” by Solon Moreira, Thomas Klueter and Aman Asija. *Research Policy* (2023).

AI: JOB MAKER OR JOB TAKER?

How artificial intelligence is defying the doomsayers. Here's what's needed to harness its full potential. Act now or get left behind.



Philippe Aghion

is an economist and professor at the prestigious research establishment Collège de France, at INSEAD and at the London School of Economics, where he is also an associate of its Centre for Economic Performance. His groundbreaking research on economic growth, innovation and the economics of artificial intelligence has profoundly influenced contemporary economic thought. www.philippeaghion.com



Artificial intelligence (AI) is an unavoidable technological revolution. And like any revolution, its impact on the economy, employment, public services, the environment, information, culture and society will be immense, both now and even more so in the future. This fact alone should inspire neither excessive pessimism nor excessive optimism. Instead, it should inspire companies and governments to mobilize their collective resources to accelerate the adoption and deployment of AI in ways that serve individual and societal needs based on shared values and principles.

This was the message of a report I co-authored with Anne Bouverot, board chair of École Normale Supérieure (ENS), for the French Government's AI Commission. *AI: Our Ambition for France* made 25 key recommendations to ensure France — and Europe — step up investments in training, innovation, computing power, data access and R&D so as not to miss out on the opportunities of the AI revolution. This informed the AI Action Summit held in Paris in February 2025.

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Here, I summarize my own research perspective on AI and share some of the recommendations that demand our immediate attention if we are to stay in the game and help shape AI's future direction. For the purposes of this article, I will focus my comments on employment, productivity and growth — areas where I am cautiously optimistic that AI has positive potential, but it requires appropriate policies for it to succeed.

Should we fear AI?

There exists in the popular imagination the fear that AI is going to replace all our jobs, amplified by a highly cited 2013 paper by Frey and Osborne that ominously predicted 47% of total U.S. employment was at risk of being replaced by computerization within the next 10-20 years. That has not happened.

My own research challenges the view that AI robotization or automation is bad for employment. Instead, I argue that AI has considerable potential to generate employment and productivity.

In a joint paper with Ben Jones and Chad Jones, we modeled AI's ability to automate tasks. When you automate the production of goods and services, you replace labor with physical capital, i.e., more machines. But that's only one side of it. AI doesn't just facilitate the production of goods and services. We considered how it also facilitates the production of ideas through its ability to imitate, learn and become self-improving. This can lead to more labor productivity without any more physical capital, and a high number of human jobs can be automated without changing the labor share.

This is in line with a famous economic insight from Baumol that, even in sectors like manufacturing or agriculture that have gotten highly automated over time, the labor share remains substantial because “growth is determined not by what we are good at but rather by what is essential and yet hard to improve.” So, even if automation keeps pushing ahead, our modeling shows a constant and positive labor share for essential tasks that remain hard to improve without continued human input.

To this point, Erik Brynjolfsson and co-authors performed a micro analysis that illustrates the empowering effects of AI on labor. They looked at a U.S.-based Fortune 500 company that employed customer support agents in the Philippines. The company rolled out a generative AI tool with

these agents to assist them with answering customer queries via chat windows. Of the 5,179 agents studied, some had access to the AI tool while others didn't, so the authors could compare each group's productivity.

They found that the number of issues resolved per hour by agents using the AI tool went up by around 14%. Also, the customers helped by AI-assisted agents came away satisfied and were less likely to ask for the help of a supervisor compared with the agents not using AI.

Less experienced,
lower skilled
agents assisted by
AI saw productivity
gains of

35%



But here's the other really interesting piece: Among the less experienced, lower skilled agents, they saw productivity gains of 35%.

When people speak about AI and employment, they often raise the specter of it aggravating inequality. It may be true that, because of AI, companies seek to hire more high-skilled workers over low-skilled ones, and these hiring preferences might perpetuate inequality. Yet the Brynjolfsson study offers a riposte to that. There, the AI actually helped the newer hires and the lower performers get up to speed faster, and the less experienced workers ended up becoming even more productive than their experienced counterparts.

This is the remarkable feature of generative AI: it mimics the actions of the best performers, so even those initially less productive can lift their performance to match or exceed the top employees.

Scale effects

In other research with Celine Antonin (Sciences Po), Simon Bunel (Banque de France) and Xavier Jaravel (London School of Economics), we compared employment in two identical firms in France — one that automated and one that didn't — and found the firm that automated created more employment. You might think that's paradoxical, given that automation means replacing people with machines. However, you have to realize that firms that automate become more productive: they produce cheaper and/or better quality for the same cost, and as demand for that cheaper/better product goes up, they increase their market size, leading them to hire more employees.

We see this dynamic consistently. When you automate sales, your sales go up, and that leads to more employment. This is why I am against the idea of taxing robots, because putting a tax burden on a firm for becoming more productive is essentially inhibiting employment.

We're now repeating our French study in Denmark, comparing firms that adopt AI with similar firms that don't. Again, we're finding a positive effect of AI on employment for exactly the same reasons.

Admittedly, the employment effect is not uniform across all types of jobs and professions. For any job, it's important to decompose the tasks and analyze which ones have a small, medium or high risk of replacement by AI. What's interesting is that, so far, many managerial tasks seem to be at low risk of replacement, and those tasks that can be replaced are usually the more mundane ones, freeing up managers' time for more creative, higher level tasks. For managers, this is good news.

For others, like administrative assistants or legal secretaries, AI adoption may not create more employment, yet this is not to say those jobs will disappear entirely. Rather,

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AI may put certain tasks at risk but not generate mass unemployment. As with other tech disruptions throughout history, people's fears are often worse than the reality

certain tasks within those jobs will become redundant and you may have to rethink the job a bit. In the same way as more automation can increase employment because you have a higher demand for your product and therefore you employ more of it, we generally find most employment skills are benefiting because of these scale effects.

This is an important distinction. AI may put certain tasks at risk but not generate mass unemployment, despite the fearmongering. It has been the same throughout history, going back to the 19th century Luddite movement involving English factory workers who resisted and sabotaged the machines they feared would put them all out of work. As with other technological disruptions, people's fears are often worse than the reality.

Economic productivity and growth

Now let's turn to talk about AI's potential for economic productivity and growth. MIT economist Daron Acemoglu recently published a paper in which he estimated that

the macroeconomic gains as a result of AI will be modest, with GDP increasing between 1.1% and 1.6% over the next 10 years and an annual gain in productivity of roughly 0.05%. He makes AI's impact seem much less revolutionary than it is touted to be.

However, Aidan Toner-Rodgers, also at MIT, contemplated other AI scenarios and found potentially much bigger gains. He studied the introduction of an AI tool in a U.S. R&D lab to partially automate the usual trial-and-error process that scientists go through for materials discovery. He found that AI-assisted researchers discovered 44% more materials, resulting in a 39% increase in patent filings, a 17% rise in downstream product innovation and a 13%-15% boost in R&D efficiency.

Granted, this is a micro-level proof. The question is whether we can extrapolate such findings to make broader claims about AI's benefits. We could, for example, compare the growth trajectories of other technological revolutions, like the electricity wave of the 1920s in Europe or the digital technology wave of the late 1990s and early 2000s in the United States. Simon Bunel, an economist at Banque de France, and I did exactly that in a recent paper. Using these two historical comparables, we calculated that productivity growth by AI would increase by anywhere from 0.8 percentage points per year (following the pattern of ITC) to 1.3 percentage points per year (following the pattern of electricity). Both trajectories are within the ballpark of Acemoglu's "modest" gains — and I wouldn't characterize the impact of those other tech revolutions as "modest." We must assume a time lag between when the technology is introduced and when its true impact is felt in terms of reorganized work processes and radical, systemic change.

Bearing in mind the earlier observation — that AI automates tasks not only in the production of goods and services but also in the production of ideas — I would argue it is still too early to quantify the real magnitude of AI's impact on economic productivity and growth. Again, using a historical parallel, 17th century advances in glass polishing eventually led to powerful microscopes capable of detecting previously unknown germs and other microorganisms. Likewise, AI's possibilities are as yet hard to say with any certainty — although Toner-Rodgers' paper gives us a sense of what might be on the horizon in terms of idea generation, scientific discovery and rates of innovation as AI realizes its potential.

What to do

Based on all this research and more, our AI report to the French Government proposed a series of urgent action items. Beyond calling for substantially more public investment, we urged reforms in several strategic policy areas, including the following:

EDUCATION

One of the top action items was to restructure education to improve AI training. Education is a key driver of social mobility. Whenever you have a good education system, you mitigate the negative socioeconomic impacts because people are better equipped to adapt to change.

Having said that, as important as it is to have more AI education in schools, we must be careful not to give students access to AI too early. In that sense, I am a traditionalist. People need to spend time writing and reading books, and not be on screens all the time. They need to learn mathematical demonstration. When I was a kid, I would work on Euclidean geometry, which helps you learn how to reason. With AI, it becomes even more important to be able to write correctly, to have good mathematical reasoning, calculus and logic. People need to develop critical thinking skills.

LABOR POLICIES

A good education system must go hand in hand with adequate labor market policies. Personally, I am fond of the Danish system, which has a strong social safety net, so if you lose your job, the state retrains you and helps you find a new job. Contrast that with the United States, where mortality rates for unskilled, middle-aged, white

men have risen sharply owing to the phenomenon of “deaths of despair.” Studies have been done on the health consequences of an employee who loses his job in, say, Denmark versus an employee identical in experience, education and age in the U.S. Their outcomes are drastically different. And these are largely the result of policy choices, not because of AI. Yes, some jobs will have to be restructured and some tasks will disappear, but there will be new jobs with fantastic potential, thanks to AI. What matters is having the appropriate education and flexicurity systems in place to harness the potential.



COMPETITION

Antonin Bergeaud (HEC Paris), Timo Boppart (IIES Stockholm University), Peter Klenow (Stanford), Huiyu Li (Federal Reserve Bank of San Francisco) and I looked at total factor productivity (TFP) — total outputs relative to total inputs — in the U.S. between 1988 and 2019, a period coinciding with the IT revolution. From 1988 to 1995, we saw average growth of about 0.8% per year. But from 2006 to 2019, average growth was down to just 0.4% per year. What happened in between?

From 1996 to 2005, annual growth surged to 2.1% per year. This can be accounted for by the emergence of superstar firms like Google and Amazon, which harnessed technology better than others and relentlessly expanded through mergers and acquisitions. At that time, competition policy was not adapted to the IT revolution, so these firms were able to expand without constraint. They became tentacular and ended up discouraging competition. The entry rate of new firms of all sizes declined from the year 2000 onward, while the average markup went up, not within all firms but only for the winning firms, resulting in hegemony for superstar firms. This occurred because there was no effective competition policy preventing it from happening.

Which brings us to today: The upstream segment of the AI value chain is dominated by a few superstar firms. That is why we dedicate a major part of our AI report to policy reforms that would foster competition. This means stopping boundless acquisition, especially if it raises entry barriers and prevents innovation by new firms. Competition policy must be determined not only according to market-share definitions but by the effect a merger could have on subsequent innovation.

DATA POLICIES

I believe in “open source” all the way. We also need to relax some of the regulations on data access. On top of the EU-wide General Data Protection Regulation (GDPR), France has added its own regulation regarding the use of health data. I’m not against regulation per se, but as things stand, our current level of regulation is creating a barrier to competition, especially for smaller firms. We know from research that competition fosters innovation, especially frontier innovation like AI. The problem with regulation — whether concerning data management or competition — is always the same: technology moves very fast and our institutions move very slow. We need to find a middle ground.



UNIFIED MARKET

Among Mario Draghi's recommendations in his must-read 2024 report on European competitiveness is that the EU needs to have a truly unified single market and financial ecosystem, able to invest in innovation akin to the Advanced Research Projects Agency (ARPA) in the U.S., to get academia, industry and government partners to work together on cutting-edge R&D and expand the frontiers of technology and science. The U.S. also has DARPA, for defense projects, and BARDA, for biomedical research. Europe does breakthrough research but the innovation tends to get done outside of Europe. We need to change that. We have world-class researchers, but we need a massive amount of capital investment in order to make the most of their research, together with a unified market where we can launch their innovations.

Time to act

AI represents a turning point in our modern societies, disrupting our ways of thinking, producing and consuming – in short, our entire way of life. This is why it is vital to master these technologies and not wait. Europe tends to act only when there's an emergency. COVID was an emergency. Ukraine is an emergency. Unfortunately, not enough European leaders perceive the concession of technological leadership to the United States and China as an emergency. In Europe, we should form a coalition of the willing – people who want to align on this agenda and get things done, collaboratively tackling key issues like unifying to develop strong capital markets to invest in innovation. Ideally, all European nations would get on board. In the meantime, let each one of us in our own sphere of influence make a purposeful start. ●

This article is based on remarks delivered by Philippe Aghion at the Economics of AI Conference organized by the Artificial Intelligence and the Future of Management Initiative at IESE Business School in Barcelona.

MORE

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THE UPSKILL EFFECT

How the U.S.-China trade rivalry became a surprising trigger for innovation – and the strategic lessons it holds for dealing with today’s competition.



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Since retaking office in 2025, U.S. President Donald Trump has shaken up world trade. His imposition of tariffs on all imports into the U.S. from April 2025 sent shockwaves throughout global markets, marking the end of the globalization story of the 1990s and 2000s, a long period of open trade and ever closer interconnectivity, particularly with China. Ever since China joined the World Trade Organization (WTO) in 2001, the volume of goods exported by Chinese firms has grown dramatically. The United States was a top destination, consistently accounting for around 20% of China's total exports worldwide. In

2021, Chinese exports to the United States topped \$560 billion, more than 10 times the amount in 2001.

But in Trump's telling, that strong growth has only ever been at the expense of U.S. industry. "For decades, our country has been looted, pillaged, raped and plundered by nations near and far, both friend and foe alike. Foreign leaders have stolen our jobs, foreign cheaters have ransacked our factories and foreign scavengers have torn apart our once-beautiful American Dream," he declared on the day he announced the tariffs. This echoes statements he made under



his previous term, when he asserted: “We are now making it clear to China that after years of targeting our industries and stealing our intellectual property, the theft of American jobs and wealth has come to an end.”

But must import competition be something necessarily destructive to U.S. firms? To probe this question, we undertook a study focusing specifically on firms operating in electronics and electrical appliances — an industry where Chinese firms have been particularly fierce rivals ever since their WTO accession. What we found is that U.S. firms didn’t just roll over in the face of import competition. How they responded to their market rivalry tells a different and rather encouraging story about competitive dynamics that all firms can learn from in today’s heated geopolitical environment.

Import shock

For our study, we selected Chinese firms in the electronics and electrical appliances industry that began exporting to the U.S. for the first time between 2001 and 2010. We gathered the information from the U.S. Securities and Exchange Commission (SEC) website as well as from China Customs.

We defined the year when a Chinese firm first entered the U.S. market as an “entry event.” We wanted to set a before-and-after marker, knowing from prior research on market competition that exogenous shocks like import competition can put pressure on incumbent firms to react in determined ways to fend off the competition. For

example, they might modify their product offerings to defend their market position. Or they might cut costs to offset lower profit margins.

We sought to analyze responses at the firm level within a specific industry, rather than considering the industry average, which tends to be the focus of most research. To get at this level of analysis, we concentrated on U.S. firms in the electronics and electrical appliances industry whose products bore a great deal of similarity to imported goods from comparable Chinese firms. For our control group, we used U.S. firms within the same industry whose products were least similar to the imported Chinese goods. We then compared how U.S. firms reacted over a period of five years, before and after the initial entry of Chinese firms into the U.S. market.

What we found diverged somewhat from previous research and existing thinking on the effects of market rivalries. Overall, we found that U.S. firms facing greater import competition from China activated higher levels of innovation relative to firms facing less competition. Moreover, those firms directly challenged by the product entry of an equivalent Chinese competitor increased their innovation output even more than other firms in the same environment.

We measured this innovation productivity by a firm’s patent filings in a given year, controlling for firms’ capital-labor ratio, size, age and R&D activity prior to the entry of Chinese product rivals.

Change for the better

A firm can react to product market rivalries in various ways. They may try to cut their own costs. They may also seek differentiation, either horizontally (offering goods at the same price but differentiating them according to some feature or quality) or vertically (using the differentiating feature or quality to command a higher price).

How U.S. firms responded to import competition from China is something all firms can learn from in today’s geopolitical environment



U.S. FIRMS INCREASED THE
BUSINESS SEGMENTS THEY WERE
ACTIVE IN BY

16%

However, our study found U.S. firms sought to differentiate themselves by developing new technological product offerings in unexplored areas and entering entirely new business lines.

This shows a strategically valuable response to Chinese competitive pressure: adapting your offer not only to shield yourself from rivals but, importantly, to position your firm at the cutting edge of your field. This manifests itself in more product-related patents.

Consider these quotes from two firms included in our sample, both of which were commenting on the incursion of East Asian firms that were conquering U.S. markets through lower labor costs and downward pricing pressure. One specialized electronics firm asserted: “(We) can maintain a competitive position based on quality, robust design and application engineering capabilities.” An automotive components manufacturer insisted its continued success “depends on our ability to maintain advanced technological capabilities, machinery and knowledge necessary to adapt to changing market demands, as well as to develop

and commercialize innovative products.” In other words, their response to Chinese competitive pressure was basically: “Bring it on! We will up our game and do better.”

The importance of upskilling

One of the takeaways we see from this experience is a lesson for dealing with competition in general: the strategic importance of upskilling. Especially when competitors begin by attacking at the low end of the market, as the early Chinese entrants did,



TO DIFFERENTIATE THEMSELVES
FROM CHINESE ENTRANTS,
U.S. FIRMS MOVED INTO NEW
TECH AREAS, WHICH WENT UP
BY NEARLY

12%

the incumbent firm response we observed is often one of the most effective: investing much more in the high end of the market and going for quality.

At the same time, another effective response is to broaden your scope and expand into new areas. This means investing not just in process improvements but in new technologies, which entails maintaining — not reducing or cutting — R&D

expenditures, despite declines in sales owing to import competition. This is precisely what we saw with the U.S. firms we studied.

As mentioned before, the nature of this technological innovation may involve moving into new areas where there is less direct competition and discovering new customer demands to meet. Crunching the numbers, we found U.S. firms feeling the pinch increased the business segments in which they were active by a significant 16% while the number of new technological classes they represented went up nearly 12% in comparison with their pre-entry averages.

The question arises as to whether these results could have some other explanation — perhaps a coincidental technology shock or a demand shock in the U.S. market happening around the same time, as opposed to a supply shock from an influx of Chinese imports. Our research so far indicates neither of those alternative explanations accounts for why these U.S. firms reacted as they did.

Although it stands to reason that firms might choose a differentiation strategy in the face of, say, a sudden shift

The challenge with tariffs is that if firms are protected from foreign competition, one is essentially removing a key driver to upskill

in consumer demand, you wouldn't expect them to consequently invest in more niche, unexplored technological areas, as the firms in our study did. Additionally, their specific shift to the higher end of the market suggests they were seeking to differentiate themselves from the lower end, which at the time was being dominated by Chinese entrants. Such a move might even put them in competition with other U.S. firms, so it's a market shift they would not necessarily undertake unless it were being provoked by compelling outside forces making the current market space untenable for them to continue in as before.

Why tariffs may backfire

We don't believe there's anything unique about the 2001-2010 period that would diminish our findings in 2025 because the laws of supply and demand and competitive dynamics still hold true. What's different today, however, is that the electronics and electrical appliances industry is more sophisticated and innovative, with many more patented technologies, making that space more competitive than ever. Also, the nature of the products entering from China is no longer primarily at the low end of the market.

Given the evolution of the market over the past decade, it's very hard to predict what Trump's tariffs will ultimately achieve. Competition, as any economist will tell you, is largely a good thing (so long as it raises everyone's game, as in our study, and doesn't degenerate into a race to the bottom). The more competition there is between

companies, the more they invest in R&D, the more they innovate and the more the consumer benefits, broadly speaking. At its best, competition acts as an incentive to drive firm performance higher, at least until a certain point.

The challenge with tariffs is that if U.S. firms are protected from foreign competition, one is essentially removing a key driver to upskill, diversify, seek new areas of innovation, patent new technologies and move to the higher end of the market, because firms are artificially insulated from such considerations, forestalling the need to do anything different.

Our research challenges the assumption that competition — particularly when it comes to U.S.-China trade — must always be a zero-sum game. Indeed, some U.S. firms appear happy to relinquish the low end in favor of high-end innovation, carving out new and arguably better positions for themselves vis-à-vis foreign competitors. Crucially, we illuminate strategic paths for firms to escape competitive pressures, enhance their competitive advantage and confidently fight back through innovation. ●

STRIVING THROUGH STRIFE

How the U.S.-China conflict spurred innovation among Chinese-descent inventors working in the U.S.

In a separate line of research, Suzan Sim, a doctoral researcher in the Entrepreneurship Department at IESE Business School, together with Aarhus University's A-Sung Hong (IESE PhD), explored the impact of U.S.-China rivalry on innovation but from a different angle and time period. They specifically studied STEM workers of Chinese descent based in the United States following Donald Trump's first election as president in 2016, which marked an intensification in hostile relations with China. They wanted to see how these high-skilled professionals responded to the conflict in their workplace.

Using U.S. patent applications as their metric for workplace efforts, the researchers connected the number of patent applications post-2016 with inventors of Chinese descent, whether immigrants or U.S. natives. For comparison, they used Korean- and Japanese-descent inventors in the U.S. in order to account for factors such as generalized anti-Asian sentiment heightened under the Trump administration which affected all of them equally.

Interestingly, they found the innovation performance of Chinese-descent inventors went up by 16% relative to their Korean and Japanese counterparts, all of whose performance pre-2016 was closely aligned. This positive innovation effect was even stronger among inventors who had immigrated to the U.S. mid-career, who had a noticeably

Chinese first name vs. a Westernized name (e.g., Cixin Liu vs. Ken Liu), who lived in counties with higher Trump support and who were corporate inventors as opposed to academics. Why might this be?

Identity-based career concern appears to be the driving force. Whether it was because they relied on employer sponsorship for a visa or they felt singled out because of their obvious Chinese identity, Chinese-descent inventors reacted to the U.S.-China conflict by making strategic adjustments to their work effort allocation. If they were immigrants, they didn't go back to China. They generally worked more hours and collaborated more with non-Chinese colleagues in mixed teams. This resulted in them innovating more than others. As the saying goes, when the going gets tough, the tough get going. Nowhere was this more true than in parts of the country where Trump received the most votes.

Geopolitical shocks can induce strategic shifts of effort, generating greater innovation



None of this is to say that national conflict is good because it induces immigrant workers to work harder, stresses Sim. “That would be the wrong conclusion to draw. Rather, the observed increase in effort likely comes at a significant personal cost, potentially leading to higher stress, anxiety and burnout.”

What the research does show is how international conflict, like that between the U.S. and China, can provoke existential concerns for those who feel caught in the crossfire. Geopolitical shocks can induce strategic shifts of effort, generating greater innovation and productivity at the firm level (as evidenced by the Xia, Cassiman and Wehrheim study) as well as at the individual level (as evidenced by the Sim and Hong study). In both situations, it incentivizes people

to upskill. Encouragingly, there do not appear to have been organizational hurdles for firms or individuals to collaborate and achieve the positive outcomes they did. And the patenting of new technologies indicates they weren’t just engaging in incremental innovation but were exploring whole new areas.

If there are any positives to be taken from the latest round of trade wars, it’s that those who confront such challenges with resourcefulness and resilience may be rewarded with new partnerships, fruitful collaborations and even higher levels of innovation and performance. ●

MORE

“Escaping product market rivalry through innovation,” working paper by Dandan Xia, Bruno Cassiman and David Wehrheim.

Bruno Cassiman acknowledges financial support from the Flemish Government (Project G071417N) and David Wehrheim from MICIU/AEI/10.13039/501100011033 and ERDF “A way of making Europe” (Project reference PGC2018-094418-B-I00).

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Full
Stop

T O W E R
T E A M W

Article by **Michelle Wallin**
Photos by **Roberta Esteves**

In the eastern Spanish city of Valls, there's a rivalry as entrenched and as charged as any in football: that between the two teams competing against each other to construct the most gravity-defying *castell*, the human towers that form a vibrant part of Catalonia's cultural life.

With their respective team shirts separated by a shade of red, the rivalry runs so deep that many members refuse to mention the other team by name and will look away during the other's performances during competitions. They spy on each other during weekly practices and send out strategy smoke signals to throw the other off track.

"I was so young when I started that it's in my blood," says Joan Ibarra, who joined his team, the Colla Vella dels Xiquets de Valls, when he was eight years old. "I can't imagine life without *castells*."

An activity that is both physically challenging and technically difficult, the unique groups behind the *castells* provide lessons for leaders looking to create long-term organizations with a strong base and an ambition to touch the sky.

History of towers

The *casteller* tradition dates back to the end of the 18th century in Catalonia. Originally a coda to a partially religious celebration from Valencia, over time the tower building took on a life of its own.

Valls, a small city south of Barcelona, is home to the two oldest groups

I N G O R K

Catalonia's tradition of human towers shows how to build legacy, loyalty and leadership, one tier at a time.



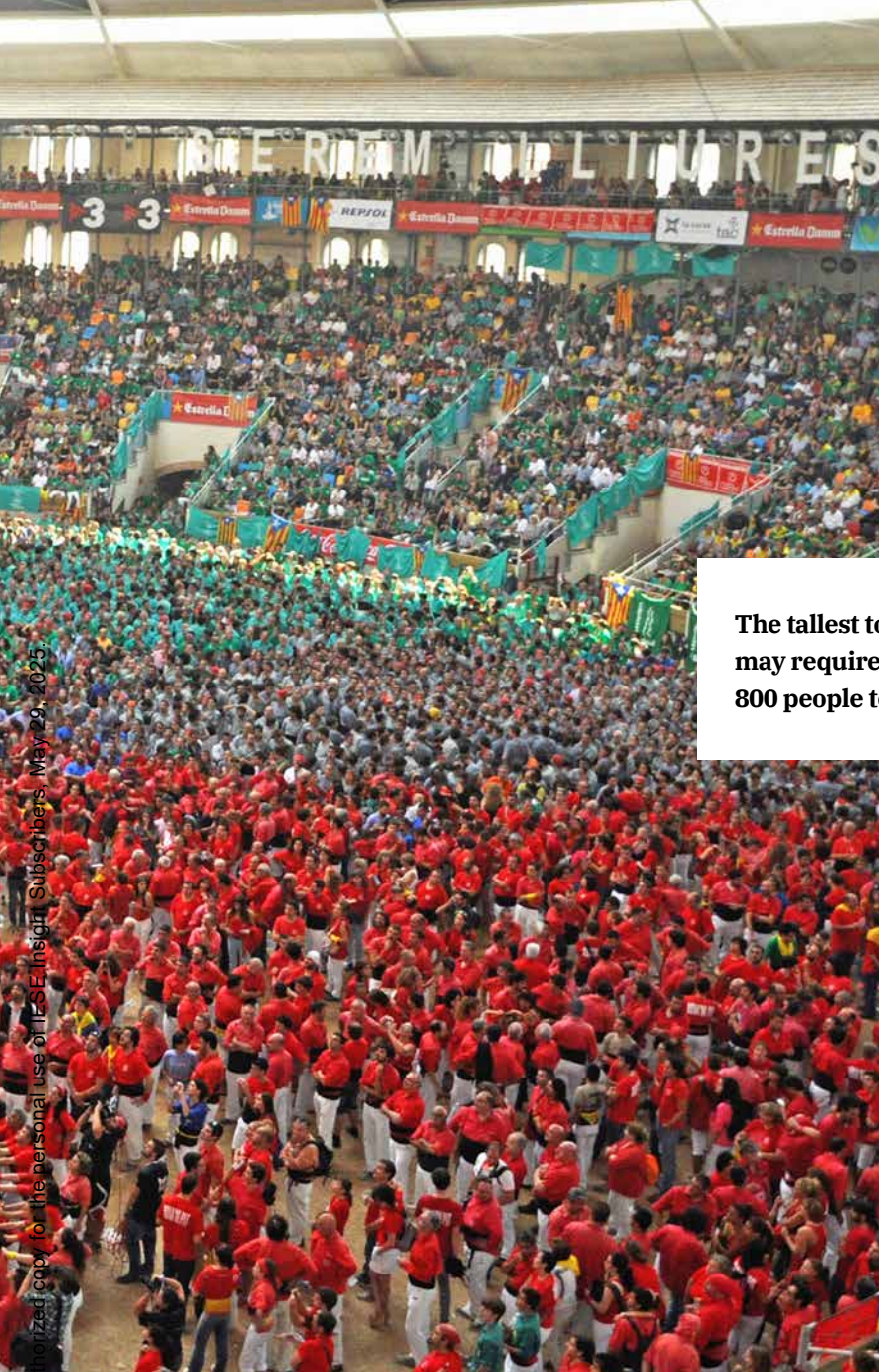
or *colles*: Ibarra's Colla Vella (founded in 1791 under another name) and the Colla Joves dels Xiquets de Valls (founded 1805). While their popularity has ebbed and flowed over the centuries, since the early 1980s the number of *casteller* groups has surged. They were featured in the opening ceremony of the 1992 Barcelona Olympic Games and declared Intangible Cultural Heritage by UNESCO in 2010. There are now more than 100 *colles*, mostly clustered around Catalonia but also in places such as China and Australia.

The math of towers

Each *castell* bears a name that resembles a mathematical riddle but is based on three structural elements: the number of people in each tier (except the very upper levels, which always have just one or two people); the number of tiers; and whether it has only a ground-level base or additional supporting tiers going up. Those without the additional supports are called *net* or freestanding. The minimum number of tiers to be considered a *castell* is six. A tower only qualifies as complete if it is safely dismantled afterward.

Thus, a “3 de 9 net” is a nine-tier tower with three *castellers* per tier and no additional support. A “2 de 8 fm” is an eight-tier tower with two *castellers* per tier and with additional helpers (the “f” and the “m”). The technical difficulty of a tower depends on its height, the number of *castellers* per tier (the fewer, the more difficult) and whether or not there are additional people acting as supports for greater stability.

Each tier demands different physical, technical and mental abilities. Children, best suited to the very top



The tallest towers may require 700 to 800 people to build.

Colles are nonprofit organizations and all members are volunteers. The Valls-based *colles* count over 1,000 members each, though not everyone is required to attend every training session, held two to three times per week. The tallest human towers may require 700 to 800 people to build.

A devoted *casteller* will remember the emotional day they were first awarded the team shirt. Or the event in which they built the most sky-scraping tower. Or the euphoric moment they crowned their city's most iconic festival. *Colles* are intergenerational: it's not unusual to find a grandparent, parent and child in the mound. A *casteller* can potentially spend their entire life in the *colla*, from childhood through to old age.

This intergenerational aspect underscores their inclusivity: young children and the elderly have a place in the *colla*. Since the 20th century, the incorporation of women – generally lighter in weight and with a different physicality – has allowed for the construction of more ambitious towers. What began as a working-class activity now draws people from many socioeconomic backgrounds.

because of their light weight, must train to gain the physical agility to quickly scale the tower and the mental strength to overcome their fears and resist panic if a tower begins to wobble. The lower tiers require greater robustness and physical might to withstand the weight of dozens of humans balanced on their shoulders.

Technique and skill are honed through hundreds of hours of practice over the *casteller* season, which runs from March to November. Successfully building human towers

requires a complex organization that unites, develops and engages hundreds of people: the *colles*.

Organizations that bind

If you have the impression that participating in a human tower is a casual weekend pastime, you couldn't be more mistaken. The organizations behind the towers, the *colles*, nurture rivalries as fierce as that between Barca and Real Madrid. Membership can be as identity-defining as nationality; the commitment as encompassing as family.

“The *colla* is a heterogeneous group – of ages, of beliefs, of everything,” says Sara Alvarez of the Colla Joves. “We're very diverse.”

The organization of the *colles* has grown increasingly complex over the years, involving multiple roles and functions. Most are divided into two main areas:

❖ **A technical area**, headed by the *cap de colla*, in charge of everything related to tower building itself. This includes planning the strategy for each

season, technical preparation of the team, management and organization of practices, and leadership of the *colla* on performance days. Building a *castell* is technically complex, requiring both careful planning and flawless execution. This is not a trial-and-error process; mistakes can lead to serious injury.

❖ **A social area**, headed by the president, who manages all other functions not directly related to tower building. This includes administration, finance, communications, logistics, institutional relations and preservation of the collective memory of the *colla*.

Team leaders

The *cap de colla*, then, combines the skills of a CEO, a human resource specialist and a head coach. Beyond technical skill in building human towers, strong leadership and people management abilities are required. The *cap de colla* must understand long-term and short-term strategy, organizational behavior, team dynamics, decision-making and risk management.

At the heart, of course, is the tower. Building the highest and slimmest. Winning the competition held in the town's main plaza on its patron saint's day. Beating a key rival. But the goal is not winning a single competition but rather maintaining a high level of performance throughout the season. Choosing when and where to compete and which towers to attempt require careful planning and financial management.

It also requires complex people management. Every member wants to be part of the towers that will define the team's legacy – and when somebody wins a spot, it means that somebody else has lost theirs.



LEADERSHIP LESSONS

For companies, the *colles* can offer a lesson in sustaining a different kind of organization. While companies often measure performance by narrow metrics, the *castellers* define organizational success in broader terms, balancing short-term success with long-term sustainability. Beating a fierce rival in a key competition is part of success, but so is recruiting new talent, developing individual and collective skills, and strengthening a sense of belonging to the organization. Here are the key leadership qualities:

PEOPLE MANAGEMENT

Leaning into empathy, leaders must be able to read the mental fitness of the team and its individual members, and provide support when needed. They must manage diverse personalities and abilities within the team and keep them aligned toward achieving team goals. Keeping an eye on the less visible yet crucial members, they must be mindful of the evolving roles of their people over time.

AMBITION AND VISION

Leaders must set high, motivational goals for the team while managing expectations wisely. They must also be able to articulate a project for the team that encompasses not only the competitive aspect but also the *colla's* values, culture, legacy and its contribution to the community.



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COMMUNICATION

Clear, honest and motivational internal communication keeps the team aligned and informed. At the same time, *colles* are normally deeply embedded within their communities. The *cap* represents the group and is often the public face of the *colla* with media, sponsors, other groups and the broader community.

TECHNICAL KNOWLEDGE

Although the *cap de colla* may be supported by a team of experts in specific elements of the tower, such as training children, the leader must be technically proficient in the science behind human tower building. That knowledge enables them to have meaningful discussions with other team leaders as they plan the season.

RISK MANAGEMENT

Missteps in tower building can lead to physical injury. A leader must be capable of balancing the need to set ambitious goals against ensuring the safety of the members.

TACTICAL DECISION-MAKING

Leaders must make critical snap decisions on performance days: which towers to attempt or which last-minute substitutions to make. The *cap* must know how to read the moment — weather, rival performances, the state of the team — and adjust plans strategically to maximize success on any given day. They must be resilient enough to manage the stress of the position and stand firm when making tough decisions.

Casteller leaders need the skills of a CEO, HR specialist and head coach

STRATEGIC PLANNING

Leaders must translate their vision into actionable steps. This includes both short-term planning, such as preparing for a key performance in the coming month, and long-term planning, including laying out the entire season and beyond. This long- and short-term lens is key to delivering success in the present while securing the future of the organization.

JOY

Castells are human connection, cultural preservation, physical defiance — and fun. The leader must maintain a positive mindset and genuine enthusiasm, fostering enjoyment within the team during rehearsals and performances.

Every role in a *castell* matters, but some positions are harder to replace than others, meaning that egos sometimes work against the essential collaborative spirit. It's also important to bring in the next generation, requiring a balance between relying on experienced *castellers* and fostering new talent.

There is also a somewhat counter-intuitive career progression for *castellers*. The most visible element of the tower is the young child who scales people's backs to the top, but children quickly outgrow that original role. People move into less prominent but more physically demanding roles as they age; or they may opt to form part of the mass of people on the ground

providing base support. This downward trajectory can be a challenging and emotional process, and the leader must navigate these transitions with empathy, clarity and leadership.

"We see the full tower and it seems like the top part is the most difficult. But the people that you can't see, the ones who are at the bottom of the base, that's a position of the most sacrifice, the most difficult, the hardest to withstand," says Ibarra.

Beyond this, since tower building is a voluntary activity, it must feel rewarding or else people will drift away. As important as reaching the highest of heights, the central goal of it all is the sense of shared joy. ●

MORE

The case study "Castellers: the challenge of touching the sky" is written by Mireia Las Heras, Jose Perez del Valle and Isaac Sastre Boquet, with support from the International Center for Work and Family (ICWF). It is available from IESE Publishing at www.iesepublishing.com. The case, along with a virtual reality experience and tower-building exercise, is used in executive education workshops at IESE Business School. The innovative teaching module was recognized by the 2025 Financial Times Responsible Business Education Award.

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