COUNCIL on
BUSINESS & SOCIETY
A GLOBAL ALLIANCE OF SCHOOLS OF MANAGEMENT

Global Voice

CASTING LIGHT – DIFFERENTLY

No. 3, January 2018

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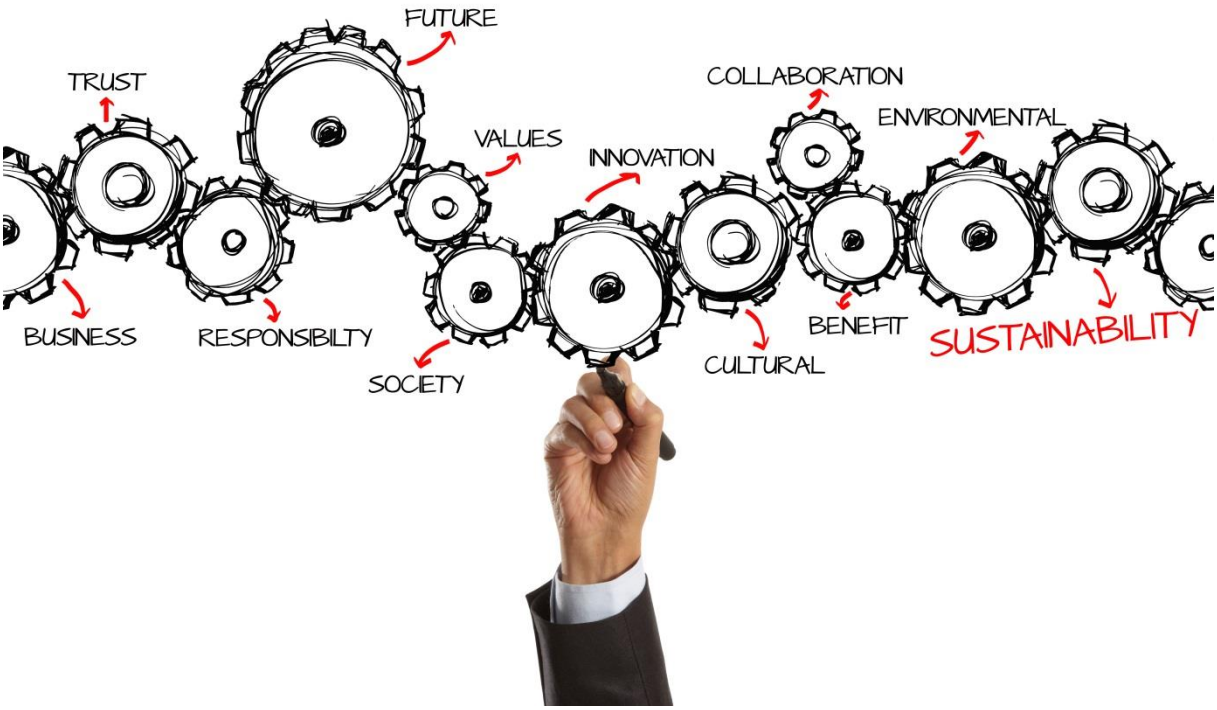

Compiled and edited by Tom Gamble, the Council on Business & Society

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Editorial

By Professor Christian Koenig

The third issue of the Council on Business & Society's eMagazine *Global Voice* comes to you at the beginning of a new year and I would first like to wish a happy, enjoyable and prosperous 2018 to all of you who read us.

At a time when relations on an international and global level seem at times strained, it is perhaps fortuitous to highlight the positive example of the Council on Business & Society – a coming together of schools, faculty and students from different continents, systems and cultures. Despite the differences, and indeed *thanks* to these differences, we manage to open dialogue, share knowledge and understand each other through a common aim – training tomorrow's responsible managers and leaders who combine business with an impact on the wider good.

2018 will see new initiatives from the Council. First, a will to widen the Council to new member schools and universities with an aim to represent the five continents and provide our students, participants and readers with a global voice faceted by a unique local perspective on business and society issues. How are business ethics seen, for example, from a Chinese viewpoint? And how does this differ or converge with a European or Latin American view and are their universal values that we can apply and follow when confronted with making difficult decisions? The Council will also open up faculty exchange between the member schools with a Council on Business & Society responsible leadership certificate awarded to students who follow the visiting professor course. The Council Community blog will also encourage students and the wider public to give voice and opinion on CSR-related questions. And finally, the *Global Voice* eMagazine will see improved design as well as offering new sections aimed at helping professionals – whether managers, leaders, entrepreneurs, academics, NGOs or policy-makers – tackle operational and theoretical issues relating to responsible leadership and business at the service of society.

It remains for me to wish you an enjoyable read of the research-based articles included in this issue of *Global Voice*. Comments on the topics covered are welcome, as well as your feedback, by visiting our website www.council-business-society.org and dropping us a mail.

Best regards,

Prof. Christian Koenig
Executive Director, Council on Business & Society

The Council on Business & Society

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The Council on Business & Society

Recognizing the enormous role business can and must play in helping solve large-scale, global issues facing the world, four business schools from around the world have formed a partnership: *The Council on Business & Society*. Through our individual and collective efforts, we strive to create and disseminate knowledge about those issues and train future business leaders capable of and committed to solving them.

The four schools that make up the Council on Business & Society are:

- ESSEC Business School, France, Asia-Pacific and Africa-Atlantic
- FGV-EAESP, Brazil
- School of Management, Fudan University, China
- Keio Business School, Japan.

The partner schools share a commitment to and belief in the power of academic excellence, collaboration, innovation, and transformative leadership. Each is a recognised leader in management education and offers a wide range of business-related degrees and executive programmes.

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A GLOBAL ALLIANCE OF SCHOOLS OF MANAGEMENT

Impact articles

A TRUER DIMENSION for INVESTMENT and DEVELOPMENT FUNDING

By Giovanni Pagliardi

Giovanni Pagliardi, **award-winning PhD student at *ESSEC Business School*, shares his research on 32 countries to disentangle the different concepts of political risk and economic policy risk and provide a ground-breaking decision-aid tool for international investment and development funds.**

When the risk is high, we go for low – but *what* risk?

Imagine you are an investor, a government, a trader, a company, a provider of development aid – and you have ten billion dollars to invest. You take two countries – France and Turkey – the former ranked among the world's best in terms of political stability, the latter the victim of a recent coup, internal tension, and turmoil in neighboring Syria that threatens to spill over the border. The question is: which one would you feel more comfortable with in placing your hard-earned ten billion? Instinctively, the answer would most probably be France.

True, Turkey displays an incredibly high level of political risk – with its long-term uncertainty and current troubles, it is straightforward to understand why – consequently appearing among the very last in The Economist Intelligence Unit international political risk ranking. With respect to France, the gap is huge. However, with a position of mid-way through the rankings as far as *economic policy risk* is concerned, Turkey performs better than France. So who do you now choose to invest in and reap those returns? The same question was likely asked of Spain in the period 2014-2016, when the country faced high political turmoil and difficulties in forming a stable government. As reported in a recent article on Bloomberg, however, Spain in those same two years out-performed the Eurozone as far as GDP growth was concerned despite its political turmoil. Why? Because of effective economic reforms implemented in the country.

New work on a sample of thirty-two countries by research fellow Giovanni Pagliardi at ESSEC Business School suggests that such decisions deserve deeper thought before being made. He disentangles the different concepts of *political risk* and *economic policy risk,* the former referring to government instability, information access, transparency and political event risk; the latter referring to the actual implementation of the economic reforms by the government, whether "good" or "bad" economic reforms for the economy of the country. He provides evidence that these two sources of risk at the international level display, surprisingly, very low correlation. With the results, he then went on to analyze the impact of these two sources of risk on sovereign default risk and international financial markets co-movements.

Disentangling risk gives a surprising picture

Traders, economists, politicians and international bodies and organisations would all like to have something tangible to hold onto when on the brink of making heavy investment or development aid decisions. This time, it seems to be the case: by measuring and comparing political risk and economic policy risk. Pagliardi's leitmotiv for his research was sparked by a realisation that no-one had formerly disentangled these two sources of risk or given precise definitions to them. Indeed, if political risk and economic policy risk are not differentiated, and only a more general political variable affecting the financial markets is considered, it implicitly means that political risk and economic policy risk have the same impact on financial markets.

However, a surprising result that reinforces his findings and the need to disentangle these two sources of risk was that they have a differential impact on the world of finance. In his paper, Pagliardi shows that more effective economic policies and lower political risk translate into lower sovereign default probabilities. In addition, he provides evidence about the very high performance of trading strategies that invest money in countries that are better ranked as far as these two risk factors are concerned. Very interestingly, this research sheds light on the different relative *magnitude* of the effects stemming from policy and institutional risks on stock market performance and sovereign default risk, and how combining this information together can be beneficial for an investor. Taking the two risks into

consideration and disassociating the two can help us to dive into the uncertainty driven by the current political situation and events and resurface with a clearer, truer view of the bigger picture from which to base our investment, trading and political decisions.

Of politics, uncertainty and finance

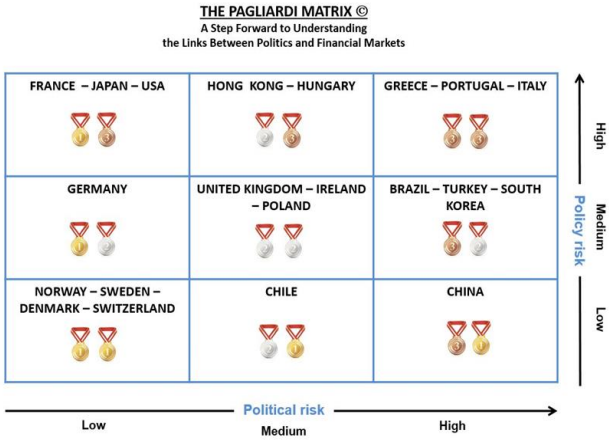
This is important. Exceptionally so in today's world of Brexit, cooling US-Russia relations, forthcoming elections in France and Italy and China's road to what some of us might call "full democracy". For political decisions, institutional issues and economic reforms are also often assessed with respect to the impact that they have on financial markets.

Indeed, it is generally thought that political risk is the main aspect affecting sovereign default risk. Hence, a stakeholder may think that a deterioration of the *institutional* situation of country A with respect to country B, or the weakness of government A with respect to government B, can be associated with a future divergence of the probability of default priced by the market of these two countries.

However, we should ask ourselves what political risk is exactly and how it can be defined precisely. Pagliardi's research findings show how to disentangle the different sources of risk embedded in the notion of politics and stemming from the impact that politics has on the world of finance: there are countries with high institutional risk but low policy risk, and also countries with low institutional risk and high political risk. In these cases, which can be identified clearly thanks to the Pagliardi matrix, a useful and innovative tool developed by the author, political uncertainty needs to be further investigated in its different components - institutional and economic policy risk- since the latter can convey different information and may point in opposite directions. Disentangling them and assessing their impact separately becomes therefore crucial. Pagliardi's research shows the differential impact of these disentangled risk factors on stock markets and credit default swaps.

Benefits – for all

The benefits of this research and a subsequent model – the Pagliardi Matrix – are multiple. Professionals in the financial field, economists,



politicians and international organisations can assess and predict more precisely which countries are becoming riskier and with higher default probability with respect to other countries by looking to their relative economic policy risk and institutional risk. Their decisions on which countries to invest in can be shaped accordingly. G. Pagliardi's work also tests the *pairs trading* strategy at the international level, showing that returns are strongly affected by his political risk variable. Traders and investors can thus more clearly shape strategy to optimize success and be able to consistently beat the market generating high returns by choosing the countries in which to invest according to these disentangled political risk factors, as extensively shown in Pagliardi's research.

One essential lesson: ignoring variances in political risk and economic policy risk would lead to completely wrong conclusions about the relationship between politics and finance and the impact of the former on the latter. Rather than assume that "when risk is high, aim for low", wiser to ask yourself *what* risk before letting go of your ten billion.

Award-winning PhD researcher, Giovanni Pagliardi

Deepen your insight into business and society.

Download issue No.2 of Global Voice

A DEEPER LOOK AT SOCIAL INNOVATION

By Mario Aquino Alves

Social innovation and the social entrepreneur are increasingly being referred to as one of the bricks of a new, fairer and more bottom-up capitalism. In the run up to a focus article on the Brazilian Instituo Palmas and its successful digital social money venture, Prof. Mario Aquino Alves of FGV-EAESP Brazil explores the many facets of social innovation to share a clearer view of what it is and how it works.

By Prof. Mario Aquino Alves, FGV-EAESP. Based on the research paper *Digital Social Money Implementation by Grassroots Organizations: Combining Bottom-Up and Top-Down Strategies for Social Innovations*, by Mario Aquino Alves, Eduardo Diniz, Adrian Kemmer Cernev, Eros Nascimento.

It all seems so simple at first glance. There is the word *social*. And there is the word *innovation*. Not surprising then that we might initially tend to understand social innovation as innovation aimed at improving the lives of the poorer members of our society. But that interpretation may indeed be influenced by both our own culture – be it Latin or Francophone or English-speaking – or whether

we work in the field of business, an NGO, or local government. In fact, as with many fields of study, its facets are multiple, each seen in a different light depending upon school of thought, policy or even values. Let's look closer at these.

Social innovation seen from academia

Academia has traditionally associated social innovation with the literature of social and economic development with particular focus on communities. It means working directly with – and within – these especially with people living in a vulnerable context. As such, it is often the structural causes of this vulnerability – poverty, unemployment, illiteracy – that are emphasized, as well as the influence of political power and the need to mobilize people to create social change. Social innovation therefore carries with it a notion of change in behaviours and the striving to implement initiatives aimed at freeing people from their limiting social contexts and environments.

Social innovation seen from business and management

Social innovation from a business dimension tends to see things in two ways: firstly, the link to the social character of a venture, with the firm's transactions linked to and benefitting society; and secondly, the potential of social innovation as a tool to boost entrepreneurship, collaboration between companies and NGOs, and the dimension of social business. Moreover, the role of the social entrepreneur is emphasized – those entrepreneurs who have a vision for social change, have the financial resources to support such ideas and all the skills of successful businessmen, as well as a great desire for social change. Seen from a business and management angle, the social entrepreneur may also be seen as someone who seeks an opportunity to fulfil demands that the State's social initiatives and policies can't or simply won't provide.

Social innovation seen from different languages

It is interesting to note that differences in definition occur through different cultural dimensions. The French tradition of social economy, for example, sees social innovation as a keystone to representing a new response to an unsatisfactory social injustice that in all likeliness will occur across all sectors of society. It aims at the well-being of individuals and the community. American scientific research circles, however, have tended to use the notion of social innovation to sustain different theoretical and ideological positions on the nature of innovation in contemporary society. These include such concepts as Porter and Kramer's notion of shared value creation: doing good for society is fine, but profit for business should also be a pre-requisite; or the notion that social innovation should be encouraged because its end effect is increased shareholder value.

How does social innovation work?

It is argued that social innovation may take several forms. The first, and perhaps most obvious, is that of a product or technology. Such innovations include WHILL's new generation of wheel chairs in Japan, the Wikipedia Zero project in South Africa, where Wiki can be accessed free of charge on any mobile phone, or digital social money developed by the Instituto Palmas in Brazil. On the other hand, some researchers also define social innovation as a process, the result of cooperation between a variety of multiple actors and a collective process of learning and knowledge creation. This may also include what still other researchers see as the need for user involvement – opting to buy fair-trade products or those where a percentage of profit is transferred to community or education initiatives or even participating in the development of the social innovation itself.

Apart from its form, much depends on social innovation strategy – how it sees the light of day, is developed and sold. This inevitably involves the question of governance.

Traditional approaches to social innovation have forwarded the argument that in order to achieve impact, scaling up and replication, social innovations are necessarily a process of top-down governance, especially to overcome problems in communities with low social capital or where even in the presence of some sort of social capital, rent-seeking behaviour occurs. On the other hand, the argument for bottom-up strategies also finds its place in the social innovation debate. Here, bottom-up stands for grassroots organisations, citizens, NGOs or cooperatives seizing the initiative over government or firms and taking the lead in development strategy.

Mario Aquino Alves advocates that a mix of strategies can occur – and indeed be used – to develop social innovations. His argument is that if social innovation aims to improve both the individual, the community and/or the organization/firm, then it can occur from any of these, in different forms, and from different players interacting at all levels in a relational process. Social innovation is therefore both bottom-up *and* top-down in nature.

Prof. Alves attempts to prove this through research into the grassroots organization Instituto Palmas in Brazil, which first grew from organizing its community and later became recognized nationwide as a model of social innovation, community empowerment and collaborative collective learning. Basing research on the relational model of social innovation, he and fellow researchers Eduardo Diniz and Adrian Kemmer Cernev, studied the non-profit organization over time, from a bottom-up period covering Instituto Palmas' beginnings and the development of a local Community Development Bank (CDB), to a top-down period that saw it employing a replication strategy to disseminate social innovations, and finally a 'tech venture' period in recent times that has seen the development of digital cash – or digital social money.

As such, Mario Aquino Alves' research provides a telling case study of how an organization that grew from local community to nationwide recognition and dissemination of social innovation employed a number of strategies that combined multi-stakeholders and multi-level involvement driven from both the grassroots up, and top institutions down. Indeed, Prof. Alves sees this combination as an essential element in the success of such an organization and its projects.

Prof. Mario Aquino Alves

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The Master in International Management (MPGI) is a graduate degree program offered by FGV-EAESP in partnership with renowned international institutions, created to provide professionals with the competences they need to take up leadership positions in a global business environment.

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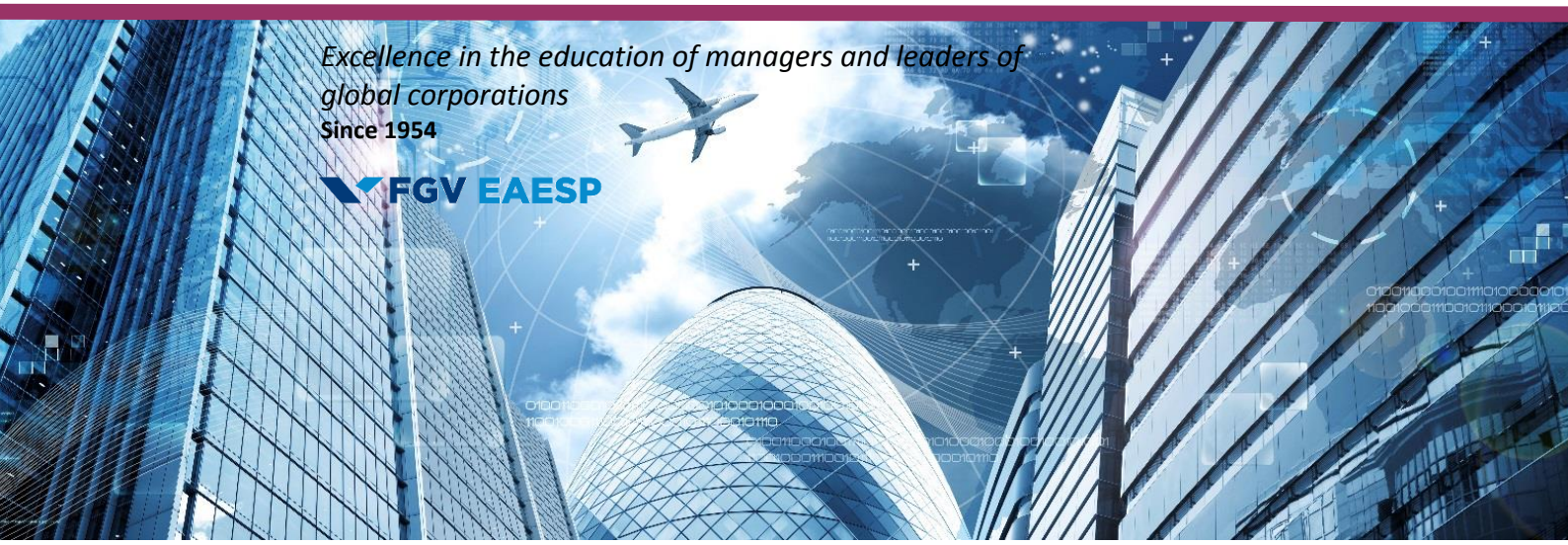
*For further information about the program, next selection process and required documents, please visit our **website**, or send an e-mail to **mpgi@fgv.br***



THE JAPANESE EMPLOYEE WITHIN BUSINESS AND SOCIETY

By Takeshi Erikawa, former Vice-Minister, Japanese Ministry of Health, Labour and Welfare

The relatively new concept of "Corporate Social Responsibility" requires that businesses today address consumer demands that go beyond a firm's core business. Indeed, global consumers now insist that companies interact with society not only through their core businesses, but also through "non-core philanthropic activities." How many Japanese executives intrinsically believe that business contributes, or should contribute, to society in both ways? Do they view commitment to their companies via sincere fulfillment of the core business without necessarily any requirement to participate in non-core activities?

Sanpo-yoshi: A Japanese example for mainstream western thinking?

A traditional Japanese way of thinking about profit called "*Sanpo-yoshi*," which translates into English as "3-way satisfaction," is a concept that provides an interesting contrast to mainstream economic theory that primarily uses a framework of two-way transaction: buyer vs. seller, supply vs. demand, etc.

In the *Sanpo-yoshi* view, the objective is to ensure that any business transaction generates a positive result for three parties: the buyer, the seller, and society as a whole. The motivation is based on a spirit of "sincerity and consideration" (in Japanese, *Chujo*) which itself has roots in the Confucian philosophical view that profit will naturally accrue to one who engages in socially righteous endeavors or behaviour. It is important to emphasize that this way of thinking produces concrete results in Japan in ways that may not be obvious to casual observation. For example, Japanese CEO compensation is significantly lower than in the U.S., demonstrating a sense of balance and fairness amongst all employees, regardless of their seniority.

But good can create not-so-good effects too

It is interesting to note that this mindset has also greatly constrained the development and enforcement of a robust patent system in Japan. In the U.S., new knowledge is considered the personal property of its creator, who may use it – or withhold it – as he or she wishes, with the purpose of a patent being to orient as much wealth to its inventor as possible. From the Japanese perspective, intellectual property is wisdom – which is a public treasure – and the value of a patent is not the enrichment of a single creator, but rather the diffusion of the information as widely and effectively as possible via patent publication, and for the benefit of industry and society overall.

Japan and the future

The major challenges now facing Japan include a declining and ageing population, deflation and slow economic growth, youth unemployment, and the need to ensure the sustainability of the social security system and healthy national finances. With the concept of *Sanpo-yoshi* in mind, companies can contribute to tackling these challenges in a number of ways, firstly by raising financial performance and contributing through taxes. Providing permanent employment for young workers, developing them as globally adept human resources, and improving labour practices to allow for childrearing also provide meaningful solutions to national challenges. Finally, pharmaceutical companies are directly concerned with employee healthcare and contribute to society not only by developing new drugs for the prevention and treatment of disease, but also by developing new ways of administering healthcare and creating environments that stimulate innovation; for example, the realization of regenerative medicine.

> *"From the Japanese perspective, intellectual property is wisdom – which is a public treasure"*

Japan currently aims to tackle the many challenges it faces through so-called Abenomics policies of fiscal stimulus, monetary easing, and structural reforms. These are particularly timely given Japan's raising of its national tax on nearly all forms of consumption. It will be interesting to see if *sanpo-yoshi* will continue to influence the Japanese mindset as the rest of the developed world seems to further entrench itself in individualism.

Mr. Takeshi Erikawa

Visit the Keio Business School website

CAN PROFESSORS CONTRIBUTE TO SOCIETY BEYOND THE LECTURE HALL?

By Charles Cho

Professors are expected to have a higher standard of professional ethics, which may help obtain better CSR performance ratings. Prof. Charles Cho, Schulich School of Business, explores the question.

From the paper "Professors on the Board: Do They Contribute to Society Outside the Classroom?" Published in The Journal of Business Ethics

Diversity matters in the boardroom—previous research has shown that a diverse board of directors, whose members bring varied experiences, knowledge, resources, and perspectives to the table, will advise managers more effectively. Studies have argued that diversity can contribute to better governance, impact corporate policy, and even boost various performance indicators.

As firms face a growing array of global challenges, including global warming, resource depletion, and

social inequality, Corporate Social Responsibility (CSR) performance indicators have become increasingly important. But what kind of diversity could help boost a firm's CSR performance ratings?

Professor-Directors bring higher standards of professional ethics…

Many firms appoint university professors as members of their board of directors—today, more than 38% of Standard & Poor's 1,500 firms have at least one professor on their board. This may be because university professors have a reputation for higher standards of professional ethics since their roles and responsibilities include obligations towards citizens, both inside and outside the classroom. As educators, they exercise influence upon the present, as well as future generations, and are likely to base their teaching on universal ethics such as humility, honesty, trust, empathy, healing, community, and service.

So, is having professors on the board associated with a stronger impact on a firm's CSR performance ratings? Working from a sample built from RiskMetrics over the period from 2003 – 2011, this study documents the less-investigated, but nonetheless important, question of whether firms with academic faculty members on the board do indeed exhibit higher corporate social responsibility performance ratings.

Our results show a significant and positive association between the presence of professor-directors and firm CSR performance ratings, and that a change in the number of professor-directors improves the strength of such ratings. However, our results also show a nuanced difference between disciplines.

…but some more so than others

It is important to remember that professors constitute a group of diverse professionals who possess different academic training, discipline knowledge, and scholarly experience. In fact, previous research has provided mixed evidence about the ethicality of professors—on the one hand, professors are overall perceived as having a relatively higher standard of professional ethics. On the other hand, *business* professors have been singled out and criticized for not taking initiative in cultivating morality and setting an ethical example for their students.

Our research results were similarly mixed—we found that while specialized professors-directors from the disciplines of engineering, science, and medicine have a positive effect on firm CSR performance ratings, *business* professors did *not* appear to affect the same ratings. We also found that professor-directors who hold an administrative position within their university exerted less influence on a firm's CSR activities.

Why are business professors less able to exert a positive influence on CSR performance ratings? This is likely due to the wide criticism that they have neglected the importance of corporate accountability in their education and failed to train responsible managers. Such an (outdated) paradigm where these issues are neglected, however, is in dire need of change. And this is why it is important that business schools continue their shift to embrace CSR and sustainability issues. Initiatives like the Globally Responsible Leadership Initiative (GRLI) and the United Nations Principles for Responsible Education (PRME) are paving the way to that necessary change.

Prof. Charles Cho

Join the Council Community blog and lend your voice to articles, discussions and opinion on business at the service of society

Management, Leadership

COUNCIL on BUSINESS & SOCIETY
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Impact articles

Ethical Leadership, Words of Wisdom

By Qinqin Zheng

Prof. Qinqin Zheng of the School of Management Fudan, Fudan University, shares her research into how traditional Chinese wisdom may play an important part in shaping ethical leadership in China.

Power to the people

Picture, if you will, the following scenario. A major natural disaster has just struck a country causing many deaths and great damage to infrastructure and the race to search for trapped survivors is imperative. Spontaneously, the country's big firms decide to help by donating money and resources. One of these, a star performer in high-price real estate, surprisingly makes only a token gesture. Public outcry is immense and the firm's image, share price and customer relationship asset immediately plummet. This prompts the CEO of the real-estate firm to hastily appear in the media, offer a public apology and slap on a second donation that raises the initial sum of 2m to 100m.

Did it happen in Europe where sensitivity to ethics and corporate responsibility is high? In the USA

where folk hunker together in times of crisis? Neither. In fact, it happened in Wenchuan, China after the earthquake of 2008 with VanKe the firm involved. It is a probing example of how the traditional Chinese ethics and wisdom that have shaped a sense of community and social commitment have a say in how businesses should behave.

Qinqin Zheng, professor at Fudan School of Management and an expert on corporate ethics, researched the wider subject with her colleagues Mia Wang and Zhiqiang Li. How is ethical leadership important in China for a firm's customer relationship and social capital – and also to what extent is the influence of traditional Chinese teachings still pertinent for Chinese business leadership?

Customers love ethical leadership

While China has experienced high-speed economic growth in the past decades, there has been increasing disclosure of immoral corporate conduct. This is paradoxically a good thing. When corruption, labour rights, product quality and safety-related issues continue to implicate Chinese firms, it means three things: that for employees and customers, unethical conduct touches a nerve-end that they rightly feel requires attention; that for the authorities, business ethics is a dimension that has to be taken seriously; and finally that ethical leadership and business ethics in China are increasingly a subject for discussion and debate among academic, government and professional circles.

It is good for business too. It has long been established that long-term customer relations are good for sustainable competitive advantage. Indeed, customer loyalty is beneficial for corporate profits. While a loyal and intimate relationship with customers is rare and difficult for rivals to replicate, it produces higher company performance and greater shareholder value. The stability of customer relationship is particularly critical in China where *Guanxi* – a social philosophy based on mutual obligations, reciprocity and trust that finds its origins in Confucianism – is still important. According to Prof. Zheng, there are two factors that positively influence this customer relationship – ethical leadership and social capital.

Confucius said…

Since the early 2000s, great interest has been shown in the notion of ethical leadership – and most of it from the English-speaking world. However, Prof. Zheng argues that practical wisdom from Chinese classical traditions may be of great guidance in contemporary management – in China and beyond. *The Art of War* by Sun Tzu is a telling example, with managers the world over searching the book for inspiration in competitive business situations. What is often overlooked is that besides tactics and strategy, *The Art of War* also promotes a set of leadership attributes that put in a modern context boil down to ethical leadership. Among these are humanity, sincerity, wisdom, benevolence, discipline and trust.

The teachings of Confucius also provide much influential thought, not only in China but throughout Asia. It comes as no surprise then that Confucianism is deeply embedded in leadership and business codes. Among one concept is that of '*Zheng*' – ethical leadership, or, more precisely, governance. Confucius explains that three aspects are necessary for ethical leadership. The first is the leader's personal code of conduct: if he/she acts correctly and properly, people will do their duty without the issuing of orders – which in the modern world might relate to *walking the talk, consistency* or *setting an example*. Public spiritedness and dedication make up the other two – notions that are easily transposed to the current context of shareholders, customers and suppliers.

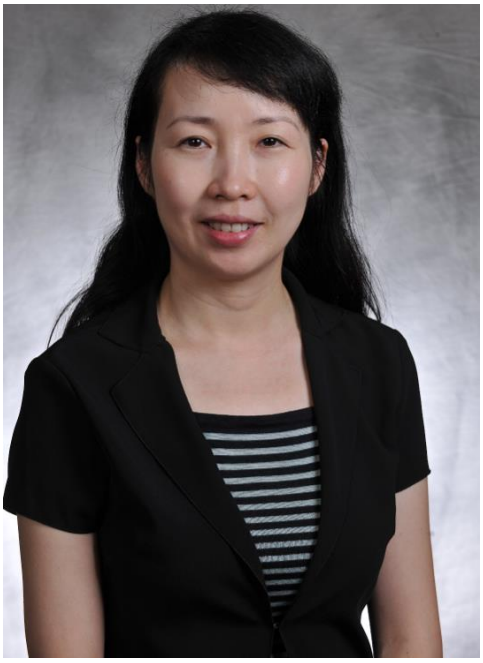
One who stays near vermillion gets stained red

In recent years, growing research has pointed to broader groups such as communities and stakeholders having an effect on corporate performance. This is where the notion of social capital comes in, the network of cross-cutting relationships in society characterized by trust and reciprocity and even – in the best of worlds – where goods and services are sold for a wider, common good. As trust grows, social networks create more relationships and strengthen existing

ones. According to Qinqin Zheng, this is especially important in China – a nation that ranks lower than any other Asian country in terms of individualism in Geert Hofstede's famed national culture dimension scores. Indeed, argues Prof. Zheng, traditional Chinese perspectives long-ago took into account the importance of communities comprised of social capital and many other resources. Quoting Mencius, she adds: "One who stays near vermillion gets stained red, and one who stays near ink gets stained black" – a nugget on the impact of communities on individuals. For a leader, therefore, gaining the support of the people (and potential customer relationship) around him or her leads to business success.

Words of wisdom

Prof. Zheng's research among 215 companies in China reveal that practical wisdom from Chinese classical traditions can be a positive influence for contemporary management. Developments in this area – to foster ethical leadership and its positive returns on customer relationships – should therefore incorporate community norms and codes that are mainly derived from traditional philosophical perspectives. Unfortunately, research shows that there are still few organisations that do integrate these into their educational or training programmes. Prof. Zheng sees this as an opportunity to therefore strengthen Chinese management, however. Innovating on education in ethical leadership at business school level, especially among MBA students, combined with in-house discussion of ethical issues connected to daily business dilemmas in the workplace, would sharpen both manager and employee awareness. The after-effect would also greatly satisfy the innate wisdom of the Chinese customer.



Prof. Qinqin Zheng

HIGHLIGHTS

- Occupational ethics and international vision
- Financial theory and practice
- Problem-solving ability
- Investment and financing decisions, risk management and high-level financial analysis
- Quantitative research and financial IT
- Financial theory and practice via seminars, business courses, meetings with CEOs and experts, corporate visits, an overseas study period and internships.

School of Management, Fudan University
Master of Finance program

The Master of Finance Program collaborates with Anderson School of UCLA and Princeton University. This program is a 2-year full-time program and committed to developing aspiring professionals who can advance knowledge and practice in the financial industry. It offers a Master of Finance degree with a specialization in Financial Engineering and Financial Management.

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Team Excellence and Bubbles of Intimacy

By Anca Metiu

Anca Metiu, Professor of Management at ESSEC Business School and Director of the ESSEC PhD programme, together with Prof. Nancy P. Rothbard of the Wharton School, take an intimate look at how teams reach success to uncover a winning world of task bubbles, artefacts and shared emotions.

From the research paper *Task Bubbles, Artifacts, Shared Emotion, and Mutual Focus of Attention: A Comparative Study of the Microprocesses of Group Engagement*

Over the years, a lot of research and practice – not to mention trial and error – has been put into explaining how some teams manage to out-perform others. And we think we know how that now happens: a team needs the necessary knowledge and skills to do its job. It needs to have performance strategies that may include incentives or KPIs. And it also needs individual

effort and motivation. The standard five-card flush the manager waves includes inspiring people to work harder through a shared vision, effectively coordinating them, providing them specific goals, managing conflict and lastly, monitoring the team's progress. So with all these cards in hand, why do some teams still do better than others and why, indeed, do some of them actually fail to reach a successful project outcome?

The answer, according to Prof. Anta Metiu of ESSEC Business School, France and fellow researcher Prof. Nancy P. Rothbard of The Wharton School, Penn State University, may have something to do with not so much focusing on a team's overall assignment but rather the team's capacity to *solve problems related to the task at hand*. Put in another way, much less research and practice has focused on what individuals do when they are performing the focal work of the team, and how they develop and sustain the mutual focus of attention required for making collective progress on the task itself. Moreover, team performance has tended to be studied on a macro level, whereas many key determinants exist at a micro level. This means that you have to get intimate to really understand what makes a team reach excellence. And this is what Profs. Metiu and Rothbard did through their research – with startling results.

Not altogether ship-shape

When managers begin to dwell on how to successfully carry out a project, they tend to make two assumptions: first that the team members are mutually focused on the task at hand and secondly, that the team will remain unchanged from the beginning to the end of the project. Both can be wildly off-target. Not every team member is necessarily a fanatical out-performer working for the glory of the team and organisation. And caught in today's sea of changing currents and sudden storms, most teams see members either jumping overboard, being press-ganged into other more urgent projects, or shipped – as is the case when projects rely in part on external providers – to other clients during the voyage.

Anca Metiu's research decided to do things differently and follow two separate teams working on different, though similar, software projects in a US Fortune 500 company – and with all the uncertainty of a real-life working situation. They also aimed to understand how the team members in each team developed and sustained mutually focused attention over time and in a complex context, hoping that their exploration would identify key elements leading to a better comprehension of what made the different in the success, or failure, of a team project. In order to do this, they looked at how people get work done by interacting with one another in temporary sub-groups that rapidly emerge and re-form according to the specific task at hand – the sudden change in client specs, the technical glitch, the shortened deadline, the added product functionality, to name but a few.

Getting intimate

When everyone's attention in the team is focused it leads to problem-solving in everyday team interactions. But how do you study its development? Prof. Metiu points to former research on interaction between individuals suggesting that successful human interaction is characterized by shared

emotion, shared focus of attention, bodily presence and proximity, and the building of certain barriers to others outside the group

who could potentially weaken this attention and emotion. When these factors exist, collective effervescence is triggered that in turn enhances individual emotional energy – think of all those Hollywood movies when the spaceship goes out of control and heads towards collision with an asteroid. The ground control team gathers round the computer screen to brainstorm a computer code, beads of sweat are mopped from brows, urgent glances are exchanged, a 5-star bigwig who tries to barge in with a deadly decision is physically barred from the team's rescue attempt, and the code finally entered. A couple of elastic seconds pass by and then, at the last moment, the spaceship swerves away from the asteroid to safety producing shouts of victory, mutual back-slapping and a final close-up on the eyes of a team member transfixed by an inner sense of having done his/her duty. This sort of collective scene of victory may indeed be an occurrence in the corporations dotting the outskirts of our cities. How does it happen? And what are the ingredients to its success?

Flies on the wall

To measure this, Profs. Metiu and Rothbard used two distinct software teams (code-named *Shield* and *Gateway*) in action within a company and observed the developers' interaction over a period of several months during project roll out. Interviews were also carried out, data gathered and numbers crunched. Shield worked on a new suite of software components destined to track and protect digital property rights over the internet. The Gateway project team worked on a new application enabling fast and high-quality delivery of rich content and documents on mobile devices. Although different projects, both teams shared several similarities, notably the fact that they worked within the same company, had large autonomy and that the vast majority of the work depended on the rapid accomplishment of interdependent tasks. There were, however, also differences: the Shield team used Indian contractors based in Bangalore, the Gateway team using local contractors

tacked on to their team composed of full-time company employees. Another key difference lay in the two teams' working approach: whereas with Shield, there were frequent sub-groups of developers working intensely together at the whiteboard, Gateway's preference was for less frequent, more formal project meetings involving the whole team. Lastly, but not of least importance, was the degree of belief in the project, the Shield team seeing their project as exciting, challenging and meaningful and Gateway's, in contrast, characterized by a general sense that there was no compelling direction for their project. This pre-requisite need for an overriding sense of vision and meaning cannot be under-estimated, even at micro-behavioural level. As time went by, Profs. Metiu and Rothbard

observed that the group interactions in which team members developed high levels of mutual focus of attention were characterised by three factors: *task bubbles, use of task-related artefacts, and shared emotion*.

Some bubbles don't burst

Among the many observation sessions undertaken, one included watching two developers from the Shield team working to fix a bug in the software. The two worked at close proximity with adjacent computers so that each could see exactly what the other was seeing. Both were at the same time individually motivated and focused on doing a good job of it, and also mutually focused on the problem they needed to solve and on each other. Each question was answered, elbows nearly touching, each leaning toward each other's computer to physically touch the screen when highlighting where to modify code. Relief, joy and smiles were the end-result when the problem was solved after a 45-minute span of intense mutual focus of attention. They did not interrupt their interaction, nor were they interrupted by outsiders. They were effectively in a *task bubble* where the world was shut out. On another occasion, although this 'bubble' was existent with two co-workers tackling a task-related problem, it was in effect possible for a task-relevant additional team member to join in the troubleshooting while passers-by unrelated to the task respectfully kept their distance. In this way, the semi-permeability of the task bubble enhanced – or at least helped sustain – mutual focus of attention.

Inversely, with the Gateway team things happened differently. Those invited to the few problem-solving initiatives that spontaneously occurred were related to the task, but were 'selected' based on their status. Permanent staff viewed the external contractors as outsiders and therefore not to be fully trusted. Because of this perceived alienation, and because of their own stake in sharing their consultant skills with permanent staff, the contractors themselves felt reluctant to approach full-timers.

Artefacts are what you make of them

Think of all the objects in your office or workplace. There are hundreds of them ranging from pens to telephones, kettles and photocopying machines. But which objects do you actually use when focusing on your own portfolio of tasks? And which do you then use when working with others on a specific task or project? This narrows things down a bit – and these objects, or task-related artefacts, take on another level of importance. In their observations, Metiu and Rothbard noticed something interesting. A higher degree of understanding and focus was obtained each time the project team members interacted with objects specific to their task in hand, and regardless of whether they were working in physical proximity or remotely via Videocon. Very simply, these artefacts consisted in whiteboards, computer screens, marker pens, code on a screen, pop-up messaging, or even the computer mouse – in face-to-face situations, for example, interacting by taking the object from the co-worker, rising to explain at the board; and in virtual working sessions using the cursor to point to something, or swapping suggestions using pop-up messaging. Using these 'tools' not only

helped keep the focus and arrive at common understanding, but also created a physical synchronicity of movement, as opposed to the outside world – typical, for example, of people who hit it off and trust each other.

Emotions are best shared

Metiu and Rothbard's research also identified the importance of shared emotions in finding solutions to a task. When pairs or trios expressed a shared emotion it seemed to create a bond which made it easier to trigger interaction in the future and sustain the mutual focus of attention during this interaction. Shared emotion – when developers shared the success of a breakthrough, for example – led to a boost in energy levels which made it possible for them to continue with their work. In short, sharing positive emotions in short bursts in an atmosphere of hard work enables others to feed off of them – carried by individuals to other encounters through a process of emotional contagion.

The primers for team and project success

Projects steered to safe haven and success depend on several conditions. The first of these is the individual engagement of each team member. Only people deeply involved in their individual tasks – liking what they were doing – could then start contributing to interacting. But individual engagement alone was not necessarily a guarantor of group engagement. It was more the frequency and informality of interactions in Metiu's and Rothbard's two teams of developers that seemed to make the real difference. In the Shield team, encouraged to meet up frequently and informally, the more interaction there was the more mutual focus of attention occurred. People felt comfortable with sharing ideas, expressing enthusiasm and doubts, and getting into the task bubble in which unguarded, free, creative and rich exchanges took place. On the other hand, the Gateway team met infrequently and almost always in the formal context of a team meeting characterized by less spontaneous, unguarded, and potentially creative information. These large, formal meetings were considered a drain on time and energy and failed to foster mutual focus of attention on a specific task.

And finally, returning to an overriding ingredient stated at the beginning of this

article, it was the compelling direction of the project that provided an important enabler for the team. Project meaning, vision and ambition helped to enhance mutual focus of attention, inspire and motivate people to work, and gave the team the collective goal that enabled team members to proactively reach out to each other willingly and spontaneously in coordinated ways to solve problems.

In the end, the figures speak for themselves: 76% of interactions between the Shield team members resulted in mutual focus of attention with 89% of these resulting in a positive outcome – be it solution, clarification of priorities, task ownership, learning or effective suggestion. Six months after the observations, the Shield team project was successfully developed and spun off by the company. As for Gateway, its product never came to fruition and after a year went by, the developers were moved to other projects.

Prof. Anca Metiu

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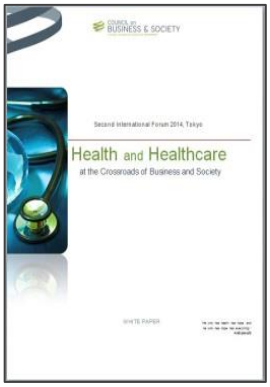

Do you Fall into the Indicator Trap?

By Jan Ketil Arnulf

Jan Ketil Arnulf, Professor at BI Norwegian Business School and the Associate Dean of the BI-Fudan MBA programme tackles the question of KPIs. Useful but not without shortcomings, should we place more faith in human thought? he asks.

"Do you avoid the dangers of indicator-driven management?" read an e-mail I received recently. The sender, a reputed management institute, warned against the dangers of using performance indicators or so-called "key performance indicators" (KPIs). I could only conclude that the author would just replace the old indices with new ones (their own).

We live an abundance of information. KPIs or indicators are simplifications that claim to reveal if managers are on the right track

before results are actually obtained. They are too often treated as an oracle's voice from a magical source. This is just like the old superstition when certain events (a black cat crossing the road) were interpreted as signs of an upcoming event (accident). Many would argue that indicators are expressions of actual causal relationships and are in this sense "scientific." Such claims often do not withstand closer scrutiny.

Performance indicators are vulnerable to three well-known misinterpretations

- **Reliability:** The measurements are too influenced by chance, much the same as some feel about oral exams.
- **Validity:** Can we draw conclusions based on the performance indicators? Will satisfied customers always be more profitable?
- **Habitual thinking:** Is the indicator the best expression of what we measure, or should we think again? Indicators that are both reliable and valid will only make you better at yesterday's solutions. The purpose of the performance indicator is to put control in front of thinking.

Post-It notes began as a production error. Disturbingly, many leaders were bad at school. And the discovery of America was a disappointing miss of India. I have seen leaders destroy businesses by misguided faith in customer retention indices. And I have seen people perish when they think the grades from school are descriptive of them. However, throwing around the proper abbreviations is still good for the career.

Stay clear of the indicator trap. Thinking is difficult and confrontational, but a useful servant to human beings. My guess is that the latter will stay true a while longer.

Prof. Jan Ketil Arnulf

A spoonful of ethics, a sprinkling of culture

Downsizing: what makes a bitter recipe sweeter?

By Aarti Ramaswami

Professor Aarti Ramaswami, Director of the ESSEC Global MBA programme, digs deep into the sensitive issue of downsizing to reveal the factors across countries that make it either indigestible for stakeholders – or easier to swallow.

From the paper Ethics Trumps Culture? A Cross-National study of Business Leader Responsibility for Downsizing and CSR Perceptions: C. Lakshman, Aarti Ramaswami, Ruth Atlas, Jean F. Kabongo, J. Rajendran Pandian. Journal name to add?

Downsizing, the conscious, planned effort to reduce employee numbers to achieve objectives, has been used since the 1980s to cope with the tough demands of a rapidly globalizing and increasingly technological economy. It can be a bitter pill to swallow – not only for employees but also for communities and, paradoxically, for the very leaders who make the decision to cut the workforce: they may ultimately end up carving themselves out of a job too. What makes the medicine – if indeed downsizing is medicine – easier to swallow? What is the effect on how

both victims and survivors view the company's responsibility? And is downsizing more easily accepted in America, western Europe, Asia, or Eastern Europe? These are the questions Prof. Aarti Ramaswami of ESSEC Business School and her fellow researchers sought to explore through their study. The results are revealing.

A recipe for alarm

Downsizing a firm's workforce is sometimes necessary. At other times it can be viewed with skepticism bordering on cynicism. Research in 2007 by Jeffrey Brookman of Idaho State University indeed seemed to demonstrate a positive relationship between the equity portfolio incentives of CEOs and their layoff decisions. Other research points to the commonly held beliefs among top execs that downsizing announcements are associated with positive stock returns. In any case, downsizing is a dirty job all told, that inevitably leads to generating victims, survivors, and perceived persecutors – each shouldered with their resulting psychological side effects. But not only are a firm's employees and management concerned. In many cases, it is the wider community of stakeholders that is impacted – be they the stores next door which rely on the spending power of the firm's workforce, local schools, and even the firm's shareholders themselves. If the firm's downsizing is perceived as unjust, then share price can plummet.

This is where the notion of CSR comes in – the commitment of businesses to contribute to sustainable economic development while acting as a good corporate citizen by balancing the interests of everyone – employees, the local community, and society at large. As seen on many occasions through media coverage of factory closures and business layoffs, public opinion is important. It can even, in certain cases, bring governments to intervene to broker emotions and attempt to quash wider unrest that may in turn damage their own credibility in the popularity polls. It is crucial then for management to show their internal and external stakeholders that the decision to downsize is justified. Moreover, it is necessary to be seen as ethical for it to be also seen as socially responsible.

Cutting across cultures

Aarti Ramaswami's research builds on previous work to include an interesting new angle: that of how downsizing is experienced not only through the layers of a firm and its outside stakeholders, but also across borders and cultures. She and her colleagues took populations from four countries – 626 working professionals and master's students from the USA, France, India and Estonia – to see if the same effects were felt and whether the fact of having different cultures modified the feelings of either inacceptable injustice or justified acceptance at the downsizing decision.

The choice of culture was shrewd, the USA being where downsizing is perhaps most commonly used to turn around organisational performance; France using downsizing despite often largescale public outcry and a complex labour law; India in its traditions versus economic growth showing an increase in downsizing incidence and finally Estonia, sitting between Scandinavian and eastern European cultures, having undergone immense change from guaranteed jobs and

passive business performance under the former soviet regime to a full market economy within EU membership – with all its vacuum of meaning this shift has left.

The good, the bad, and the ugly

The effects of a botched downsizing strategy can be disastrous on a human level. Those that are laid off – the victims – may go through the typical range of psychological states when faced with shock or trauma: denial, anger, shame, sadness, depression. In the worst cases, this process may repeat itself in an infernal emotional loop that goes on for years after. We might also believe that those who keep their jobs – the survivors – come out of it happy. In fact, their lot can be almost as traumatic as the victim's: anger, fear for the future, lack of motivation to continue the effort to work and interact harmoniously with their management, relief but also guilt. The degree of reaction – negative or positive – depends on two things.

The first is how those chosen to lose their jobs are selected. If individual employees are treated on the merit they each deserve and the criteria is considered fair – not simply sacking someone because they fail to wear a smile or because their skin colour is different, but measured by their level of work performance, commitment or skills sets – then the downsizing decision is likely to be seen as ethical and pragmatic. Organisations that do not use clearly specified criteria are seen by employees as socially irresponsible. Unsurprisingly, communities outside the firm will also take the same view.

The second factor is all about employee perceptions of procedural justice – use of improper procedures and lack of employee involvement leave the decision-makers wide open to claims of being unethical. Prof. Ramaswami suggests that when employees are kept in the dark with little communication and detail – and subject to having downsizing imposed on them – they are likely to find that unethical. This dimension is also an important area of assessment for CSR. Supervisory support, clearly defined lay off criteria, good procedure, the possibility for employees to express themselves and trust in management are therefore key to obtaining the notion that although tough, the decision to downsize is justified and fair.

Responsibility comes with a price

People tend to search for someone responsible for the plight of those who lose their jobs or faced by job insecurity and uncertainty. As such, the CEO's decision to downsize is critical in influencing people's reactions. As already stated, there might be a temptation to streamline in the belief that the firm's stock price increases, though new evidence points to this being short-term in nature and only effective in periods of economic non-recession. In any case, a CEO's prestige, power and influence are ultimately damaged through layoffs.

The arguments for reducing the workforce are many – globalization, and technological change among them – but it can also be the case that incompetent management has been the cause of poor results. And when the workforce and wider community get a whiff of this, any downsizing attempt will be seen as

wholly unjustified. Here again, clarity and communication are capital in shaping stakeholder acceptance of downsizing. Naming the responsible cause – be it difficult times or fierce competition – means that both victims and survivors will consider downsizing as socially responsible and inevitable in order to save the firm. In contrast, when downsizing is due to management failures, workers do not see things in the same eye.

Culture club

Do nationality and culture have a part in culling acceptance of a downsizing decision? Take Prof. Ramaswami's club of 4 – the USA, France, India and Estonia. Anyone's initial guestimate would tend to see US employees being more open to accepting downsizing – it happens more frequently there and Americans are more used to the dangers of an economic system that hinges on profit and growth. Some might also – given France's image of strong unions and cultural penchant for refusal in the face of change – be tempted to say that workers in France would tend not to accept.

To put this to the test, Aarti Ramaswami and her fellow researchers used well-researched models of cross-cultural values. One of the dimensions used to measure cultural influence in approaches to work is that of 'power distance' – the nature and acceptance of inequality, hierarchical relationships, and decision-making in different cultures. The USA in a corporate context, for example, is seen as basically flat in terms of hierarchy with easy access to management and quick decision-making, while France is seen as pyramidal in nature with successive layers of subordination from the top down and lower scope for initiative and decision-making among employees.

Research showed that all four cultures (USA, France, India and Estonia) were equally sensitive to fairness in the selection criteria for lay-offs, the equity of procedures, and the opportunity for employees to communicate. If these are seen as just, ethical and justified, then employee acceptance of downsizing is likely to occur. In these three specific areas – criteria, procedures, and communication – it means that a universal set of ethics has greater leverage than one's specific culture.

However, it was when tackling a fourth area – that of responsibility for the downsizing decision – that differences in culture were seen to have the edge over universal ethics. Survivors – those keeping their jobs – in low power distance cultures (USA and Estonia) seemed to react more negatively to downsizing than those in high power distance cultures (France and India) when downsizing was due to poor management. Whether this is due to closer relations and trust between employees and management in low power distance organisations – and therefore greater subsequent feelings of betrayal – remains to be studied. But the message here is that top management needs to be wary of culture when planning and rolling out their downsizing strategy. The motivation and performance of their employee survivors is at stake. So is their reputation. Shaping the blame of downsizing must be done carefully and responsibly. It takes a large spoonful of ethics and a sprinkling of cultural awareness to do so.

Prof. Aarti Ramaswami

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Corporate Sustainability is 50 Shades of Green

By Jan Lepoutre and Karoline Strauss

Sustainability is far from just plain green. Jan Lepoutre and Karoline Strauss, Professors of Management at ESSEC Business School, together with Geoffrey Wood, Essex Business School, University of Essex, argue that sustainability requires unique change in organizations and explain how employees across different levels of the organization can support it.

Not just a greener shade of pale

There are many preconceived ideas about corporate sustainability – so many that there is a tendency to see sustainability as just plain green: 'plain' in the sense of being a rather unexciting and non-essential aspect of company activity and 'green' perhaps even in the sense of simply naïve. But becoming (more) sustainable necessarily involves change for businesses. And how sustainability can be achieved, and how individuals throughout the business can contribute to sustainability, varies. This makes corporate sustainability all a shade more interesting.

Some firms aim to simply reduce the environmental impact of their services or products, for example, by reducing waste or pollution, by implementing recycling or car-

pooling programs, or by constructing more efficient company facilities. These sorts of programs do not create radical change; they do not dramatically alter the firm's business model or require it to venture into uncharted territory. Change is gradual and based on continuous improvement. Often, they "involve incorporating off-the-shelf innovations or practices into the company's operations"[1].

For others, sustainable business practices reflect not simply a desire to reduce environmental damage. For them, sustainability means producing in a way that can, theoretically, be maintained indefinitely into the future[2]. This involves radical innovations and often implies changes in companies' business models. For example, in its bid to become more sustainable, ***Interface***, one of the world's largest carpet manufacturers, shifted from a business model based on selling as many carpets as possible to a leasing-based model. Indeed, these sorts of changes are complex and highly disruptive.

There are no general prescriptions for how a company should "go green". What works and what doesn't work depends on the shade of green the firm is aiming for: a "light green" strategy of reducing environmental damage will have different implications than a "dark green" strategy which aims at producing in a sustainable way.

Greening from the roots

Whether a firm is aiming to be light green or dark green, individuals throughout the organization are the crucial link between a sustainability strategy and its outcomes. However, how leaders and employees can effectively contribute to the greening of the organization varies depending on the shade of green.

Adapting to change: Light green or dark green, sustainability necessarily requires change, and for employees this means adjusting their ways of working. In the case of "light green" strategies, change is incremental and comparatively predictable. This allows companies to be clear on how employees should change their behavior, and to provide motivation by setting goals and implementing incentives. In the construction industry, for example, setting targets for the reduction of waste materials can improve efficiency and motivate employees to adjust their ways of working.

"Dark green" strategies pose different challenges. It is often not possible to set specific targets for employees, and because change is happening at a rapid pace, it may even be counterproductive to incentivize and reinforce behaviors that soon become irrelevant. For "dark green" strategies to succeed, companies rely on employees who are comfortable with high levels of uncertainty, and who are willing to continuously change and adjust the way their job is done.

Bringing about change: No matter what shade of green a company is aiming for, employees can play a critical role in being proactive and in bringing about change that contributes to sustainability. In the case of a "light green" approach to sustainability, the strategic decisions involved are usually based on leaders' knowledge and experience. As such, leaders typically set goals to be achieved, such as specific targets for emissions. However, employees play an important role in figuring out just how such targets can be met. For example, when companies in the manufacturing sector set pollution prevention targets, it is the production employees who work on solutions[3]. They are frequently the only ones who are in a position to notice the problems that cause pollution.

For companies aiming for a darker shade of green, it is not always members of the top management team who are the initiators of change processes. When greening an organization in radical ways, relying on what has worked in the past can be a disadvantage. Instead, individuals across the organization need to generate new knowledge and generate ideas for radical change. For example, the home cleaning products

company ***Method*** aims to change how home cleaning products are made and relies on constant innovation of new products and services that mostly come from their employees or their customers[4].

How employees adapt to and bring about change constitutes the building blocks that allow organizations to put their sustainability strategies into practice. How these different ways of greening organizations can be encouraged depends once again on the shade of green. When taking a "light green" approach to sustainability, companies can typically anticipate the skills and knowledge their employees will need and can provide them with the necessary training. For example, research shows that environmental awareness training and campaigns can be effective in improving energy preservation and recycling behavior[5]. Suggestion systems and workgroups can generate "best practice" and ideas for incremental improvements, and rewards can be offered to encourage even employees who may not be intrinsically concerned about the environment to contribute to sustainability.

When aiming for a darker shade of green, different approaches are needed. Employees suggesting ideas for such radical change need to be resilient and able to cope with the push-back and resistance their efforts will be met with[6]. Companies will need to count on risk seeking, long-term-focused employees who feel strongly about sustainability, and to encourage exchanges across different functions to help knowledge and ideas flow. Once again, the home cleaning company ***Method*** recruits employees who are confident that they can "*keep Method weird*" and facilitates direct exchange between employees and customers[4].

Life at fifty

Sustainability is not a uniform shade of green with a one-template-fits-all solution. There is no general advice on how to "go green". Instead, Strauss *et al* argue that organisations are better helped not by bigger pictures and grandiose templates for action regarding their sustainability initiatives, but more by fine-grained advice that takes into account the specific shade of green an organization aims for. How organisations contribute to a more sustainable world, therefore, is very much in the end in their own hands. And a shade challenging.

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Prof. Jan Lepoutre

Prof. Karoline Strauss

Can Financial Markets Push for CSR?

By Adrian Zicari

Those in advanced and developed industrial countries may be tempted to view emerging markets as irresponsible producers of pollution and a culprit for much of the world's global warming. But research on South America by Prof. Adrian Zicari of ESSEC Business School reveals a surge in local-specific sustainability indexes for investors seeking a clearer picture of firms' responsible business practices.

Fact and fog, smug and smog

It's a fact – things are getting better. Doom-laden prime-time TV reports of industrial pollution and global warming apart, social responsible investing and sustainability indexing are two clear examples of a tangible effort to make things go in the right direction.

Across the world, they are surging. Socially responsible investing (SRI), sometimes known as green or ethical investing, is all about gaining financial return while seeking to invest in firms demonstrating a conscious effort to improve their impact on business, society and the environment. For an investor to make that decision to place his money wisely – and responsibly – he needs to know what a firm is

actually doing in terms of responsible business practice and how it performs. This is where the sustainability index comes in – stocks quoted in terms of environmental, social or governance (ESG) criteria.

Such indexes have been around for some time in industrialised and developed economies, encouraged by the UN Global Impact initiative of 1999. The US Dow Jones Sustainability Index (DJSI) or the London-based FTSEGood index, respectively launched in 1999 and 2001, are good examples that some make use of to point a condemning finger at stock markets in developing or emerging economies without such indexes. Such moralising from the world's richest may not be entirely justified – firstly because their own emergence tended to occur at a mature stage of the market. And secondly because, in a global context of increasing reference to sustainability indexes for investor decisions, some developing markets are attempting to make good. They are doing this via the launch of indexes that tailor to local contexts as well as solving the challenges of their comparative low market liquidity and the high cost to the potential investor of obtaining correct and proven information needed for their investment decisions. Such an example is Latin America, and more specifically Brazil, Mexico and Chile, the focus of detailed research on SRI by Prof. Adrian Zicari of ESSEC Business School.

A clean sleight

Prof. Zicari points to SRI developing in Latin America in a different way from those of developed markets, with Brazil, Mexico and Chile providing an approach that could prove interesting for other emerging countries either in the region or elsewhere in the world. As Prof. Zicari states, this ongoing surge of Sustainability Indices in three Latin American countries is remarkable. SRI is still quite new in the region, the situation largely contrasting with that of developed markets where SRI has become a common investment practice. One sixth of funds invested by professional managers in the United States, for example, is related to some approach of SRI (US SIF, 2014).

What sets the Latin American approach apart is the direct participation of local stock exchanges that aim to gather a critical mass of highly respected stakeholders. This has mainly come about through a combination of two factors – the limited nature of stock exchanges in South America and the cost of obtaining ESG data.

In developed markets, this assessment data is collected by investment funds or by social rating agencies which makes the cost of obtaining it high for investors in developing countries. By using indexes created by their local stock markets and whose composition is freely distributed so that any investor can use the information at no cost, Brazil, Mexico and Chile have creatively detoured this onerous aspect.

Does it work?

In Brazil, the Sao Paulo stock exchange created the ISE corporate sustainability index as far back as 2005 – the fourth in the world and the second in an emerging market. Data is collected on a voluntary basis and corresponds to seven different criteria: general, product nature, corporate governance, economic and finance, environmental, social, and climate change. Both a good score and a minimum liquidity are required before selection is made. All in all, the index does not seem to have better returns compared to a classical investment portfolio. However, it can be argued that SRI investors may still prefer to invest in companies with better ESG performance even

if financial results remain similar. Moreover, it can be said that the ISE directly influences corporate practice, appearing attractive to firms wishing to make their reputations visible, gain knowledge and exert influence on competitors and suppliers via their presence in the index.

Mexico has the *IPC Sustentable*, created by the Mexican stock exchange in 2011 with the involvement of the European ESG rating agency, Eiris. Here too, a requirement is minimum liquidity and companies are assessed on three criteria – environmental (50% of the score), social (40%), and governance (10%). As with the Brazilian ISE, the *IPC Sustentable* changes its list of companies yearly.

The latest newcomer is the Chilean Sustainability Index jointly launched in 2015 by the stock exchange and S&P Dow Jones. Known as the Dow Jones Sustainability Index Chile, it follows a best-in-class approach – cherry-picking the best companies and with no exclusion of sector – with assessment made on the basis of information submitted by listed companies. If a company decides not to answer the questionnaire, the evaluators can use publicly available data. The biggest difference from the Brazilian and Mexican indexes is the use of the Dow Jones name. It will be interesting to see in the next few years if this choice of launching a sustainability index with a widely known brand will accelerate the international awareness for this Index.

Helping responsible investors make their decisions

For investors, the most valuable information is not the Index composition itself but the methodology for assessing ESG performance. This is where the Dow Jones Sustainability Index Chile "best-in-class" approach may prove difficult for the socially responsible investor to swallow. Controversial businesses such as oil and tobacco can be included and, given that only the very best firms are selected, many firms with very good responsible business reputations may remain off the radar screen. As a result, Sustainability Indexes cannot perfectly replace the lack of ESG rating agencies. Indeed, both serve different purposes: the former are meant for reference or benchmark for SRI portfolios while ESG rating agencies evaluate the ESG performance of particular firms. This said, information from Sustainability Indexes in the context of Latin America can still help SRI investors to make their decisions. And for responsible investors, where there is no index to glean there are always corporate reports to read, announcements to hear – or the doom-laden prime-time TV news to watch.

Prof. Adrian Zicari

Entrepreneur-ship

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Impact articles

Exploring the incubator's black box

By Tales Andreassi

Tales Andreassi, Professor of Entrepreneurship and Vice-Dean of FGV-EAESP, Brazil, opens up his research into incubators and start-up survival. Studying the insides of incubators reveals a key factor as to whether their start-ups succeed or fail.

From the paper: *Being flexible through customization – The impact of incubator focus and customization strategies on incubatee survival and growth*. Johanna Vanderstraeten, *, Arjen van Witteloostuijn, Paul Matthyssens, Tales Andreassi.

The smaller they come, the quicker they fall

It's an exceptional fact: politicians, economists, academics and professionals themselves all agree on one thing. The thing in question? That new business brings adrenalin to a country's economy and helps it stride onwards towards growth. But despite this, start-ups suffer – from both newness on the market, their smallness, lack of legitimacy and connections, fewer resources and less access to knowledge

than their grown-up counterparts – and this suffering often provokes a high failure rate. This high failure rate – 30-40% in their first year according to OECD figures – can actually spur governments to try to compensate for market failures, one type of state intervention being the nurturing of start-ups in business incubators.

This all sounds very good news for those buzzing with a business idea and ready to create their company. However, there is a glitch. Both practitioners and policy-makers alike have little in-depth knowledge about incubators. Moreover, academic research has only just begun to scratch the surface of understanding on incubators' internal operations and service offering. To quote Sean M. Hackett and David M. Dilts, respectively of Waseda University and Dilts & Partners, a consulting firm, 'it is not surprising that an incubator's internal service offering is often referred to as part of a "black box"'.

Does the specialized incubator guarantee success for startups?

Not knowing the reasons for success or failure in hatching sturdy new businesses is analogous to an entrepreneur with a great idea but without a market survey, business model or business plan. Tales Andreassi, Professor at FGV-EAESP, one of South America's leading academic institutions, decided to open the black box further together with fellow researchers Johanna Vanderstraeten, Arjen van Witteloostuijn, and Paul Matthyssens from the University of Antwerp. What they probed about for was an insight into the relationships between an incubator's industry focus and its degree of service customization. This, they thought, might actually pinpoint a key factor indicating the capacity of an incubator to foster successful start-ups.

Common thought among policy-makers and practitioners alike was that if an incubator focused on a single-industry – for example, digital applications – the chances of survival for a young start-up with an idea in this field would dramatically increase. Typically, incubators either offer offices and communication services, business services, or facilities and equipment services. As the number of incubators grew from the 1980s onwards, it was only natural for them to begin to compete, ever-increasingly, with other organisations in the incubation industry to attract start-ups. And as a consequence, academics and practitioners shifted their attention from merely listing incubator services to highlighting best practices and strategy formulation, viewing them much in the same way as they would true companies together with their internal processes, identity, administration and external communication. This accounts, in large, for the view that industry-specific focus worked best.

It's not what you do but the way that you do it

Surprisingly, Andreassi *et al* found no evidence that opting for a specific industry directly enhances incubatee performance. Indeed, incubators offering diversity of both services *and* diversity in industry-specific incubatees seemed to fare as well as, or even better than, those without diversity. Moreover, they state that it is not the type of services being offered that creates incubatee value, but rather the way such services are offered that ultimately defines the incubator's value proposition. Moreover, both diversified and specialized incubators may be able to attain a competitive advantage – but it is not as much the *what* but the *how* that is necessary for an incubator's industry focus to actually result in higher incubatee performances.

As such, it was found that in cases where incubators pursued a service customization strategy for their start up incubatees, regardless of whether they focused on a specific industry or housed young companies from various industries, it had a positive influence on their performance. For difference and diversity in an incubator's service offer means two key things: start-ups benefit by gaining access to novel resources and they also see a whole new, and diverse, network opportunity open up before them. This in turn creates ideas, innovation and ultimately value creation for the products or services the start-ups sell. This is news for those who believe industry-focus is essential: focused incubators can only increase incubatee survival and growth when they also follow a service customization strategy. Incubator managers and incubator support organizations might use this information to simultaneously decide upon the incubator's scope and its service offering strategy. For practitioners and policymakers alike, offering the "right" assistance is pivotal for increased incubatee survival and growth rates.

Prof. Tales Andreassi

For an African Entrepreneurial Area

By Hamid Bouchikhi

Prof. Hamid Bouchikhi, Director of the ESSEC Center of Excellence in Entrepreneurship, asserts that for an African entrepreneurial area to materialize requires in-depth work with the younger generations. Because innovative entrepreneurs are, for the most part, young graduates from higher education, the mental setting up of an African entrepreneurial area calls for massive encouragement of infra-African student mobility.

The flagging pace of advanced economies and the slowdown observed among the BRICS countries has turned gazes towards Africa whose demographic vitality, the emergence of a solvable middle class and economic growth rates that are hardly dreamt of elsewhere, we rightly admire. The development, throughout the continent, of a new generation of innovative, ambitious, self-confident entrepreneurs, connected to the world and perfectly harnessing new technologies, leads us to hope in the beginning of an African development model which is less dependent

on public or foreign investment and the beholder of stronger local innovation.

However, it should be noted that ambitious African neo-entrepreneurs are coming up against numerous endogenous obstacles representing real competitive disadvantages in relation to their American, Asiatic or European counterparts. The adverse effects of the extreme fragmentation of the African continent, a major stumbling block to the development of an African entrepreneurial area, are many.

Globalize the African approach

There where an American, Chinese, European or Indian entrepreneur operates on a continental, even world level, African entrepreneurs operate in a much narrower domestic space which reduces their potential market and prevents them, practically, from accessing sources of financing and talent in other African countries. In truth, intra-African movements of people and resources are so complicated that an African entrepreneur with a major innovation can much more easily deal with other continents, even move there, and thereby exacerbate the brain drain which penalizes African economic development to such a great extent.

The initiatives to make Africa a large entrepreneurial and economic area are many and we can all think of administrative measures and agreements that have sought to render intra-African movement more free-flowing. Nevertheless, these initiatives, some of which are already in place, are meaningless if they are not activated by entrepreneurs having internalized Africa as their natural field of action. Otherwise said, the African entrepreneurial area must first root itself in the mindsets of those entrepreneurs active on the continent. Having taken part in events gathering together young African entrepreneurs, I have regularly observed that that the continent constitutes a blind spot in their field of vision. As a large majority, they have no direct experience with other African countries and lack networks even though they may be very connected with players on the American or European continents where, very often, they have studied or even worked for many years.

Collaborative entrepreneurship

Consequently, for an African entrepreneurial area to materialize requires an enormous effort to be made with the younger generations. Because innovative entrepreneurs are, for the most part, young graduates from higher education, the mental setting up of an African entrepreneurial area calls for massive encouragement of infra-African student mobility.

The study of several statistical sources from African higher education gives room for hope. According to estimates from the World Bank, the continent counts 18 to 20 million students in higher education. If we consider that the proportion of future entrepreneurs is 5% within this population, there would be one million potential entrepreneurs on African campuses! Compared to their counterparts on the other continents, African students are more mobile (5.7% according to UNESCO) but almost exclusively choose European, American and, recently, Asiatic destinations. Orienting 6% of students towards countries on the continent for all or part of their studies would mean exposing, each year, 60,000 potential entrepreneurs to Africa (6% of one million).

The level of these figures demonstrates the interest and the necessity for a voluntarist effort to produce an African Erasmus able to encourage and facilitate the intra-continental

mobility of students. Initiatives exist and should grow more. The European Union has set up an intra-academic mobility program for the ACP areas (Africa, Caribbean and Pacific). For lack of a public assessment of this initiative, the elements available point to it not having (yet?) had the expected impact. The African component of the Erasmus Mundus program seems, for its part, much more used – something that can be easily understood given that it is addressed to African students wishing to study in Europe.

The MINDS institute, headed by Graça Machel Mandela, has announced the launch, in 2017, of a program closely resembling Erasmus by and for Africans. It should be hoped that the institute finds the necessary financing and, especially, the effective means to better 'sell' continental destinations to young African students. The scale of the continent and the rapid growth in higher education headcount require other initiatives, notably private establishments, both profit and non-profit, which have reached a critical mass in Africa and enjoy wider margins of freedom to form trans-frontier African partnerships.

The media must also contribute to the intra-continental mobility of students by the highlighting of pockets of higher education and research excellence which exist throughout Africa, and by the celebration, under various forms, of young innovative entrepreneurs having had a direct experience with other African countries and for whom this experience has served as a stepping stone in an entrepreneurial adventure.

Prof. Hamid Bouchikhi

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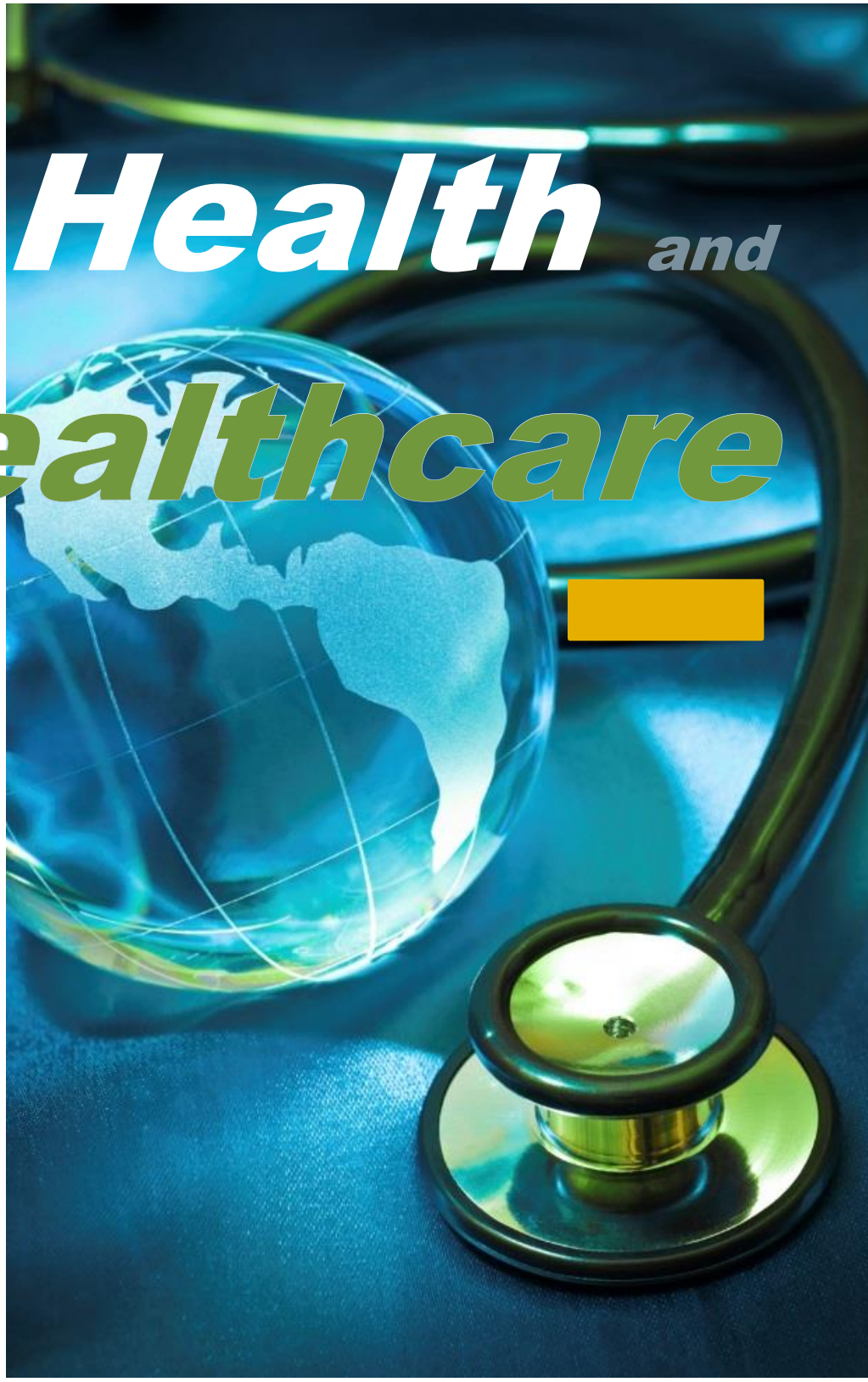
Health and Healthcare



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Impact articles

Healthcare is an asset – not a liability

By Edward Yagi

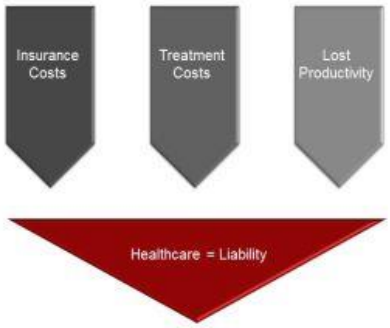
Prof. Edward Yagi of Nanzan University Graduate School of Business Administration, and Keio Business School alumnus, argues that health systems around the globe should be considered an asset, not a financial liability.

The preamble to the Constitution of the World Health Organization, adopted by the International Health Conference in New York in June 1946 states: "Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity." As an indication of the strength of this definition, it has never been amended. Since that time, however, the world's population has tripled to 7.2 billion people. The United Nations reported in April 2010 that comparing the periods 1950-1955 and 2005-2010, global life expectancy rose from 47 to 68, and the proportion of deaths at age 60 or over – when healthcare costs are at their highest – rose from 26 percent to 54 percent.

As the ferocious debate currently raging in the United States vividly demonstrates, systems designed in the second half of the 20th century are incompatible with 21st century needs, expectations, and realities – socially, technologically, and financially. Japan can no longer be considered an "ageing society:" With more than one person in four over the age of 65, Japan is a prime example of an "aged society" where existing models of healthcare are incomplete, obsolete, and unsustainable.

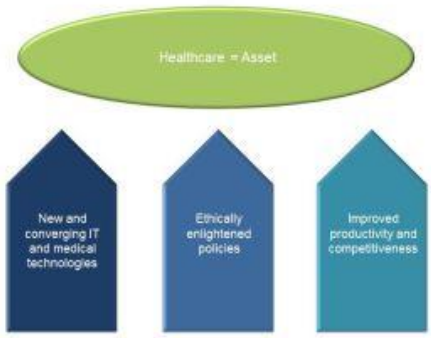
The existing paradigm considers healthcare a liability

This model has no upside. Healthcare is the sum of negative inputs, including insurance costs, treatment costs, and productivity lost from physical and mental illness:



The new model views healthcare as an asset.

Healthcare is a collection of positive outcomes, including improved productivity and competitiveness, new and converging IT and medical technologies, and ethically enlightened policies:



A question of questions

The question is not: "Do healthcare systems need reform?" The question is: "How should everyone constantly re-examine health concepts and implement systems to create the best outcomes in sustainable ways?"
Healthcare may be the ultimate interdisciplinary field of human study. It cannot be viewed as only a business, a public service, a technology field, an academic discipline, an ethics issue, a moral duty, a management study, or a matter of every person's most private life. It is all of these – simultaneously. Excellent solutions will not originate from companies, governments, universities, or not-for-profit organizations. They will only originate from collaboration between all of them.
Some healthcare systems are arguably better than others, but all existing models are categorically inadequate for most present and all conceivable future purposes for the following reasons:

- Today's policies are reactive. Decision-makers who are indifferent or constrained until something goes wrong are always, by definition, operating "behind the power curve."
- Today's processes are input driven. Results are determined by resources perceived to be available rather than clear-headed visions of what desired outcomes ought to be.
- Today's systems are unsustainable. They originated when populations were smaller, lifespans were shorter, information levels were lower, expectations were fewer, and economic growth was viewed as infinitely sustainable.

The first indications of "Global Best Practices" are already beginning to form

Future solutions in healthcare will incorporate the fact that tomorrow's policies will be pro-active. Instead of crisis management, treatment, secrecy, and patient behavior

reform, future policies will emphasize anticipation, prevention, information, and education. In addition, tomorrow's processes will be output driven. Nations will create, and managers will be held accountable to implement, a vision of healthy individuals, healthy companies, and healthy societies and public and private capital, information technology, medical technology, managerial ingenuity, a strong sense of ethical responsibility, and all other available resources will be aligned to realize that vision. Tomorrow's systems will be sustainable. They will be evidenced-based and will not rely on wishful thinking or procrastination. Systems will be focused on future outcomes rather than current budgets, and incorporate the ability to make mid-course corrections and consider worst-case scenarios. Successful new healthcare paradigms will and must strike a balance between Global Best Practices – which will be highly consistent – and local conditions which will change over time.

The world's cultural, economic, social, political, and religious diversity cannot be ignored

There will never be a single "one size fits all" model. Healthcare is a moving target. While some strategies will meet the test of time, tactics must be flexible enough for both existing populations as well as needs decades into the future. Many health issues will always be immediate and recognize no artificially imposed boundaries, so the world has no choice but to adapt some form of strategy for the moment – and accept some degree of global cooperation.

As some countries, regions, or areas develop excellent programs, there arise questions and concerns about population transfer. Consumers in one country may travel to another country for the purpose of obtaining better healthcare, in many cases without having invested (e.g., by paying taxes) previously in the country where they are receiving the actual treatment. In larger countries, citizens may even travel domestically for the same purpose. This means that all countries will have to eventually consider transnational or even global programs. Globalization is likely to ultimately require that all countries adopt some system of universal standards for dealing with business travelers, casual tourism, medical tourism, international medical evacuations, refugees, and the large-scale population transfers that some experts predict is inevitable given global climate change projections.

Business schools are perfectly positioned to take important – and even leading – roles in crafting healthcare solutions

Business schools are politically neutral, intellectually independent, and results-oriented. They are also unique in their ability to gather theorists, practical academicians, business leaders, bureaucrats, politicians, and professional policy experts in one room. Business schools educate future leaders to whom the results of critical analysis can be instantly relayed for consideration and implementation in the real world.

New healthcare solutions have implications that go far beyond only healthcare

- Healthcare is a universal human need
- It is interdisciplinary and global
- It demands sustainability and cooperation
- It requires commitment to high ethical principles: altruism, fairness, trust, confidentiality, honesty, and integrity

- It requires adherence to critical thinking, evidence-based decision-making, and rigorous verification.

In other words, excellent healthcare solutions have the potential to provide a template for solving or managing other problems. Observable, measurable, real-world improvements in healthcare, especially across borders, can be a model and source of inspiration for improvement in other world issues such as good governance, social inequality, hunger, natural disasters, and even political conflict.

Prof. Edward Yagi

Keio Business School
Graduate School of Business Administration, Keio University

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Survival of the fittest: Employee Health as a Strategic Imperative

By Edward Yagi

Any organization with a strong sense of survival needs to focus on the well-being of its employees and consider them as customers for ethical as well as pragmatic reasons.

Contributors: Prof. Robert Hansen, Tuck School of Business, Dartmouth College; Mr. Geoff McDonald, Global Vice President Human Resource for Talent, Marketing, Communications, Sustainability & Water, Unilever Corporation; Prof. Elizabeth Teisberg, Geisel School of Medicine, Dartmouth College. Collated and written by Prof. Edward Yagi. Edited by Tom Gamble.

Survival techniques

It is vital for organizations to take a strategic approach to improving employee health in view of long-term stability and benefits. We all live in a world where "people have the power" thanks to the explosion of social media. Opinions and experiences of individuals matter much more than they ever have in the past, and that companies ignore unhappy employees or dissatisfied customers do so at their own peril. In other words, any organization with a strong sense of survival needs to focus on the well-

being of its employees and consider them as customers for ethical as well as pragmatic reasons.

It's not what you spend; it's the way that you spend it

The problem in many countries is the focus on spending rather than on outcomes. Healthcare in the U.S., for example, is widely regarded as relatively ineffective, with far more spent on worse outcomes compared with other countries; i.e., the American system gives a low return on investment. Health results are not necessarily a function of spending, but rather of how cleverly the spending is done. People want health, not treatment. The fact that those with a chronic condition miss almost twice as much work as those without a chronic condition leads to the conclusion that more effective prevention, including primary, secondary, and tertiary prevention are required. Healthcare services need to be structured around customers, with more logical organization of acute care to reduce the time needed to consult different practitioners.

Both chronic diseases and good health are contagious. Health is a socially shared issue, so promoting healthy lifestyles at work is vital. However, specific issues vary between enterprises. Poor-health employees incur health costs in addition to other knock-on costs to the enterprise; it is therefore important to work with insurers or governments to establish and share outcome measures that are determined based on local circumstances and the particular environment or condition of the community being evaluated, these must certainly extend to the industry level at least, and possibly even to the individual company level.

It's all in the mind

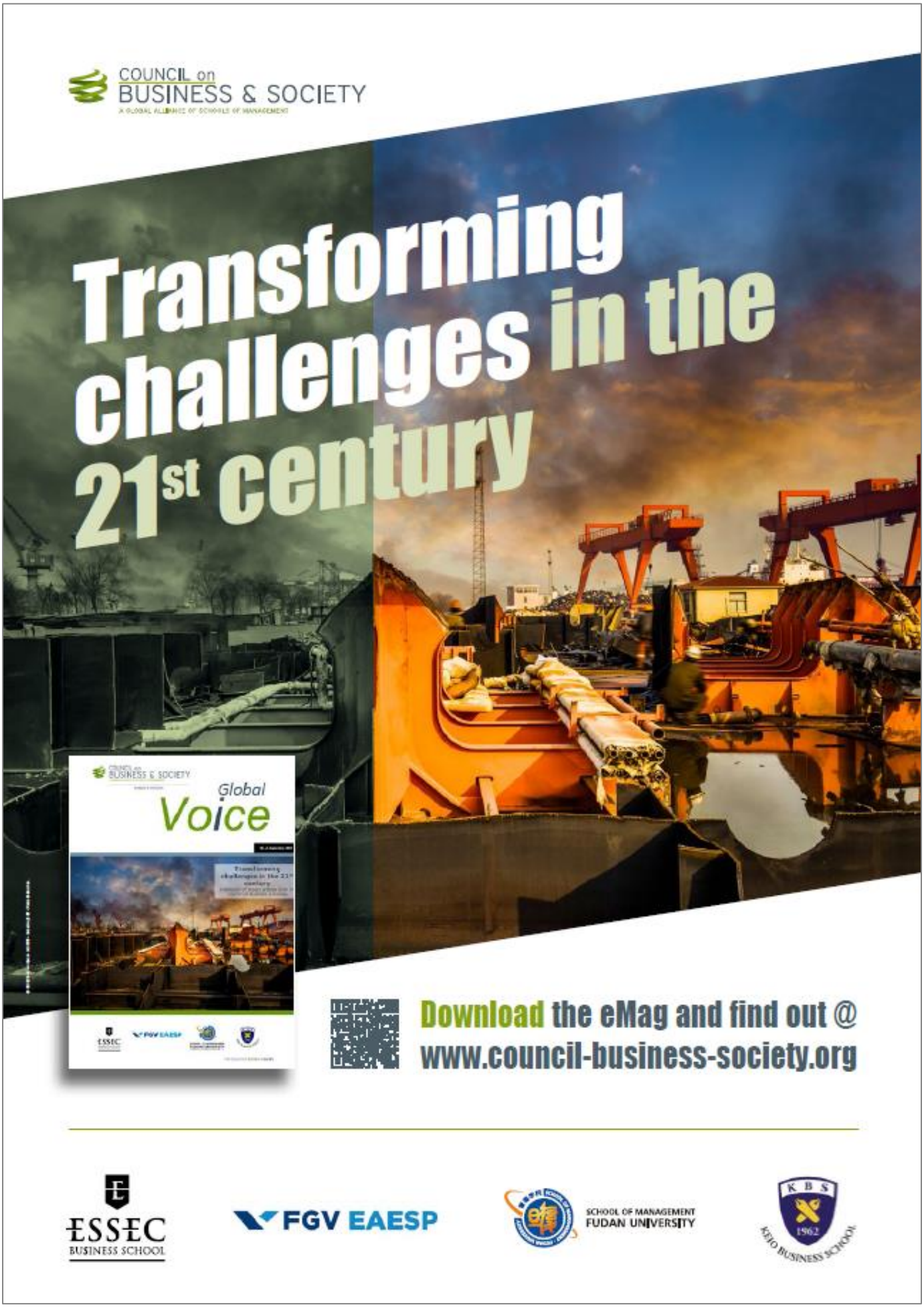
Studies show that in recent years, absenteeism and illness are increasingly related to mental health issues, and mental health issues have long been stigmatized in the corporate world. In 2012, for example, an estimated €92 billion (US$118 billion) was lost in the European economy due to absenteeism linked just to depression and anxiety. In an effort to break this stigma, Unilever created a framework to build leadership, management capability, and corporate-wide understanding of the importance of a healthy mind. In addition to running campaigns, such as bringing in role models to talk about mental illness, senior leaders were encouraged to talk about their own experiences with depression, anxiety, or other mental illness – something that required considerable courage. A by-product of this program was that by discussing mental health illness when or after it occurred, employees would later realize that such dialogue was a sign of strength, rather than weakness. The fact is, being anxious, stressed, or depressed is not a sign of failure. One in four people will experience this issue at some point in their life. Consequently, an atmosphere must be created where people feel comfortable talking about mental health issues in the workplace. Of course, the causes of mental illness are complex and cannot always be attributed to issues in the workplace; nevertheless, employers must play a leading role in developing solutions.

Tune in and switch off

Other positive initiatives in combatting mental health issues involve encouraging resourcefulness and resilience in the employees themselves. What can be done upstream to stop people getting sick in the first place, through rest, being able to "switch off" or disassociate from the workplace for a period of time (long or short), and examining how teams are working together is important

in tackling the causes of stress and related illnesses. It is interesting to note that research shows that one of the biggest sources of stress is lack of feedback from line managers. Improved communication among and between employees is therefore imperative. Employers should also provide employees with opportunities to learn about mindfulness, meditation, yoga, the importance of recovery during the course of a day, and during a holiday.

To conclude, employee healthcare is strategic: intimately linked to motivation, employee loyalty and results, and directly impacting company reputation and results.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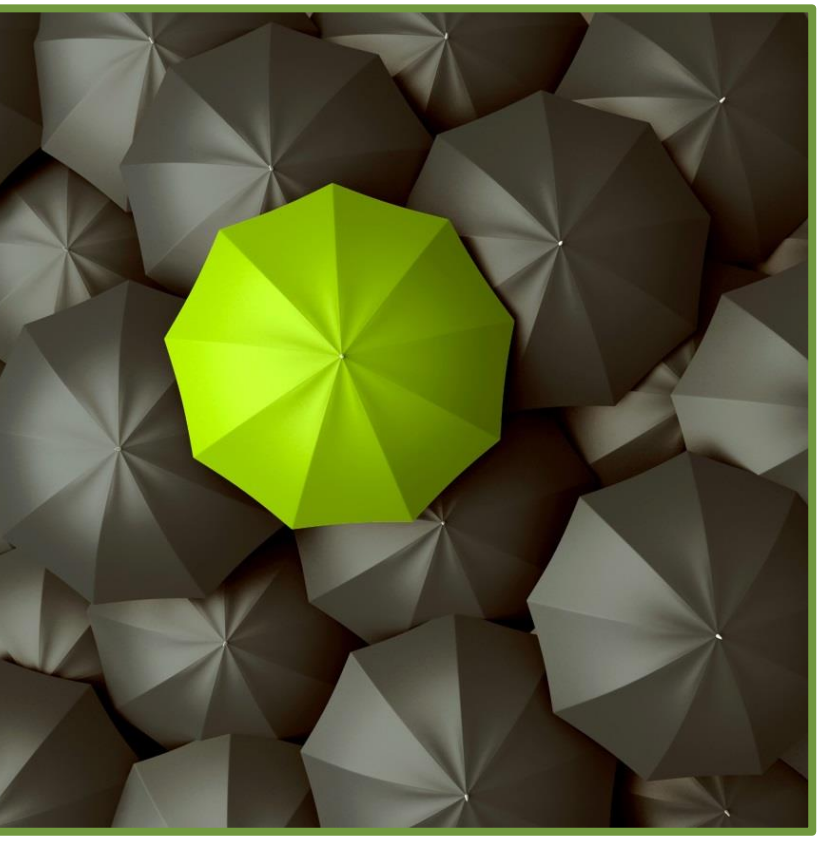

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