

IE Expert Analysis on Management, Technology and Innovation.

IN SIGHTS

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JAMES MURRAY
“CONQUERING
SPACE REQUIRES A
BUSINESS MODEL”

CRISTINA ÁLVAREZ AND
BORJA GONZÁLEZ
“WANTED:
DIGITAL LEADERS”

JUAN CARLOS
MARTÍNEZ LÁZARO
“A STRATEGIC VISION
FOR THE ECONOMIC
CHALLENGES OF THE
21ST CENTURY”



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ON THE EDGE

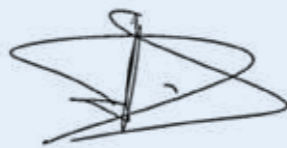
NEW FRONTIERS

Space technology is present in all areas of our lives. The great challenges in space exploration have a profound effect on the way we live. From new materials and medical breakthroughs to telecommunications and GPS access, space technology is one of the main catalysts of the lifestyle we enjoy today. Moreover, major companies and visionary entrepreneurs have begun to invest in new business models that tap into the possibilities of space.

Companies such as SpaceX are innovating in the aerospace sector and actively lowering the cost of putting objects into orbit. Blue Origin, a company owned by Jeff Bezos, is also developing solutions that will allow them to become a major player in the industry. Despite various hurdles, Virgin Galactic has developed a means to make space tourism commonplace in the coming years.

The NewSpace movement is creating a private investment ecosystem with growth figures that make the sector increasingly attractive. Mining on asteroids and other planets is an area with considerable growth potential. In this edition of Insights, we interview James Murray, Co-Founder of Offworld, a company whose business model is based on the development of robots to facilitate space mining. I encourage you to closely follow the development of the space industry over the next few years.

In this edition, we also discuss our economic perspective for 2019 and beyond. We consider it important to provide an overview of the opportunities and challenges that lie ahead in the next few months and years. Juan Carlos Martínez Lázaro analyzes the main economic indicators and key factors for this year.



William Dávila

Executive Director of Corporate Relations at IE



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**STRATEGY
SALES & MARKETING**



**TRANSFORMATION
WITH PURPOSE
THROUGH
STRIVING AND
STRETCHING**

PETER BRYANT

Finding a deeper sense of meaning for our life doesn't come automatically. It's a constant process of striving and stretching ourselves, following our passions and discovering purpose every day. And feeling fulfilled not by what we achieve, but by how we live. We must be adventurous and remember that this is not a solo journey—love and the human connection are what will get us there.

Our world hungers for purpose. People constantly seek greater meaning in their lives and careers. Many are living longer, feeling fit, healthy and energetic into their mature years, eager to take on new challenges and give something back. Yet, we're immersed in important problems, needs and unfulfilled human wants. So, how do we discover purpose? How do we go about transforming our life and career to that end?

—
To live and work with purpose, we must look beyond what is obvious and easy, and step out of our comfort zone.

➤ **OPENING UP TO NEW CHALLENGES**

Taking the first steps is critical. When we choose to seek purpose and meaning, it is an act of will. David Jones is a great example of this. While serving as Global CEO of Havas, one of the world's top advertising agencies, he opened a fresh chapter with renewed purpose. David co-founded One Young World, now the preeminent global organization dedicated to developing young leaders. As he puts it, "If you can't find a purpose you're passionate about in your career, then you can set out to change the company. And if that doesn't work, then change companies." We do so by asking questions, challenging assumptions, taking the time to pause, stepping into a new space. And building on prior experience and insight. But seeking a greater purpose does not mean you currently lack one. The challenge is to go above and beyond, finding even deeper meaning and purpose.

➤ **STRETCHING FURTHER**

Psychological research shows us that purpose thrives on having stretch goals and overcoming obstacles, both in the world and within ourselves. Having to struggle heightens our sense of engagement and value. In contrast, when things are too easy we are less engaged. Action becomes routine, not energizing. To live and work with purpose, we must look beyond what is obvious and easy, and step out of our comfort zone. This is exactly what we should be doing. Meeting social needs and solving important problems requires discovery and active engagement with reality. Many solutions are neither obvious nor easy—it often takes time and effort to find purpose in the world.

Indeed, the journey is purposeful in itself, a way of being and becoming, day by day. Purpose is not just about the goals we set, or whether we reach them. The truth is, we find purpose in the very act of striving. Purpose is not a destination—we discover it every day. My own research on entrepreneurs demonstrates this: Many derive a sense of personal fulfillment from how they live and work, not the specific goals they achieve. In fact, this partly explains why entrepreneurs often absorb and grow through apparent failure.

➤ **A COLLABORATIVE JOURNEY**

The journey of purpose can be deeply personal, but so is community, collaboration and teamwork. In fact, when purpose is embedded in the social world, it takes on additional meaning. We don't strive and stretch alone, but for and with others. Most people know this already. Our families and close communities are journeys of shared purpose and meaning. We are now invited to imagine this on a larger scale. In our teams, companies, institutions, our one world. And as David Jones asserts, you don't need to choose between making money and doing good. Individuals and companies can do both; his purpose is to prove it.

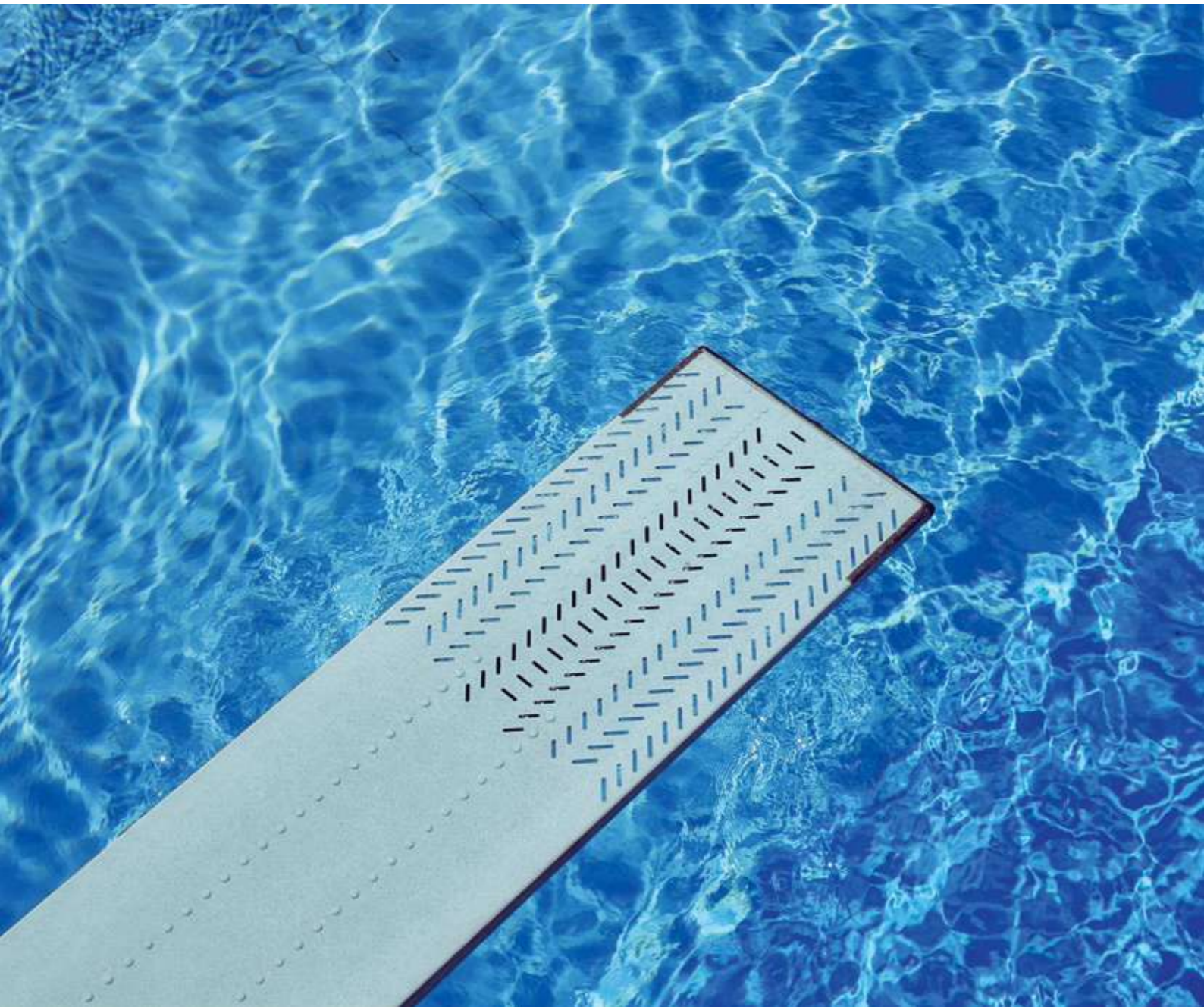
So, where to begin? First, venture into the world to actively seek new horizons and welcome challenges. Second, develop the capacity for creative striving, finding satisfaction in overcoming, regardless of outcomes. Third, explore and experiment, to find the path and identity that are most meaningful to you and your community. And fourth, connect and empathize with fellow travelers, those who share the passion for purpose. Once again, David Jones provides an example. He was greatly supported by his mentor, the late Kofi Annan, former Secretary-General of the United Nations. David quotes Annan, who said: "You are never too young to lead, and never too old to learn." Working together on global climate change, he learned so much about experience, purpose and meaning. We do not travel this path alone.

➤ **PAST, PRESENT AND INTO THE FUTURE**

In the past, purpose could be inherited, adopted from social custom or culture. Purpose was bestowed by faith, family or function. Granted, these remain deep sources of meaning for many. But for others, they are not enough. In today's complex, ever-changing world, purpose is to be discovered and nurtured.

As David Jones challenges himself and his children to do, we must live life by the following motto: "Did I live, did I love, did I matter?" In fact, he discovered that doing what you love with purpose doesn't feel like work. It feels like being truly alive.

—
Peter Bryant, Professor of Entrepreneurship at IE Business School.



WANTED: DIGITAL LEADERS



CRISTINA ÁLVAREZ AND BORJA GONZÁLEZ

Although we tend to focus on technology, culture is actually the most important part of digital transformation in any organization. In this strategic process, it is essential to have digital leaders throughout the organization so that a common language can be developed. In this conversation, IE Business School Professors Cristina Álvarez and Borja González del Regueral discuss the in-depth reflection process that all companies should undertake to ensure that this transformation process constitutes a true investment. In their view, technology is actually the easiest part.

Cristina Álvarez: Technology and changing consumer habits are the big disruptions currently affecting the business world. These factors, plus the transformation, have given rise to a different sort of leadership style. Technology has been around for many years, but nowadays the combination of cost and processing capacity is practically marginal. Digitalization is now affordable for any organization.

Borja González: In both the telecommunications world—where you come from, Cristina—and in the energy industry, the change has to do with viewing technology as an investment rather than an expense. However, resources are often allocated without a clear objective. Hence the need for digital leaders: people who know how to shake things up and set goals for the use of tech-based resources.

Cristina Álvarez: People often say that there's a lot of hype around the digital world. I've heard this in many different forums. In my experience, however, very few organizations really bother to reflect on how they want to use these tools. Investing in big data or blockchain doesn't make you digital; it's a more reasoned process. The most important thing is the concept of core transformation and its impact on the bottom line.

Companies have started to grasp the need to develop a strategy that treats technology like any other asset, rather than as an end in itself. The transformation therefore takes on a cultural dimension.



Borja González: Indeed. Ninety-nine percent of companies are traditional, but they all want to be like Google. How can we compete if we all want to be GAFA? It must be said that not all organizations have the same needs or the same type of customer. Over time, companies have started to grasp the need to develop a strategy that treats technology like any other asset, rather than as an end in itself. The transformation therefore takes on a cultural dimension, which is actually the most important part of the process.

Cristina Álvarez: That's the key. Technology is the simplest part of the change. The most complicated part has to do with people. The impact cuts across

the entire organization. As consumer habits change, companies must abandon traditional vertical structures, so if they don't have digital leaders in place throughout the organization, the transformation simply will not happen.

Borja González: And to do that, they have to adapt their discourse. It's a complex but necessary process to get the various teams to understand each other, with technology as a recurring theme.

Cristina Álvarez: The common language has to be the language of business. In other words, how does a particular tool help to improve the business? Employees with

technical profiles in marketing, finance, or human resources need to understand how this transformation process benefits them. It's a collective journey in pursuit of a common objective. Of course, no one should expect results in the short term.

Borja González: Indeed, it's a long journey guided by customer satisfaction. You have to turn 180 degrees and focus on the customer. It sounds like a very subtle change, but everything goes along with it. Human resources must identify the talent and skills that are needed to lead teams in this direction.

Cristina Álvarez: Let's get back to the topic of leadership. It's been shown that the world's

You have to be the first, even if the product is imperfect. The customer will always buy that convenience.

top-performing companies are those that understand—at every level of the organization—that technology is a factor that will disrupt their business model. We could go on to discuss the level of risk assumed and the speed with which the company acts. No two transformations are the same.

Borja González: I would add another component: honesty. Before you can design a strategy, you need an honest diagnosis: a 360-degree assessment of the organization. Knowing what you have, what you need, where you are, how you got there, and where you want to go—these are key questions in any prior reflection process. Not knowing the starting point is a common mistake.

Cristina Álvarez: This is an internal reflection that each area must undertake. Failure to do

so can lead to major fractures during the change process.

Borja González: I agree. Without this sort of internal analysis, there cannot be a proper transformation, just cosmetic changes. Also, it's important to realize, when you adopt a strategic approach, that many questions without clear answers will crop up along the way.

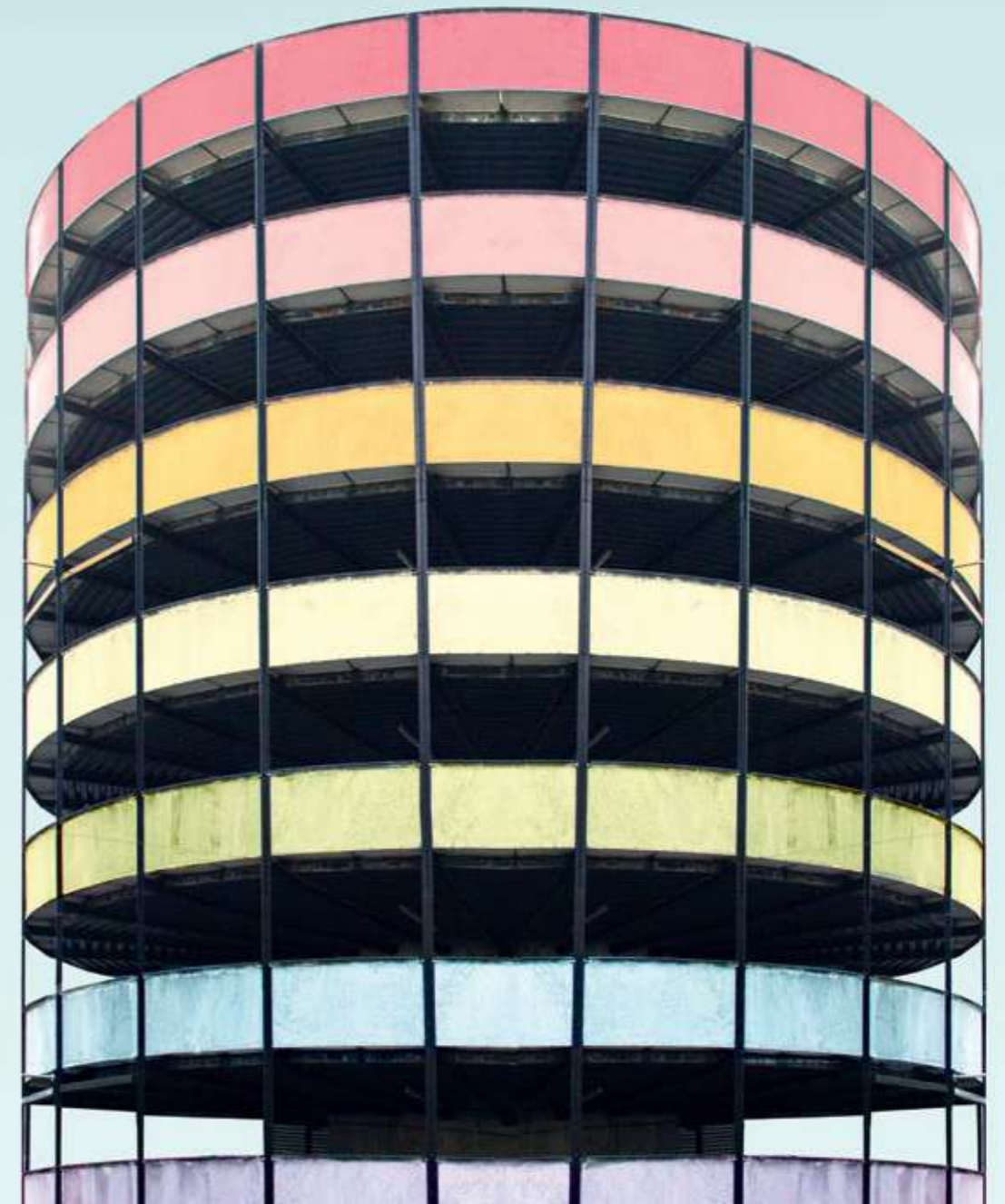
Cristina Álvarez: Digitalization has prompted a reassessment of the functions of each department. Therefore, no two business areas will move at the same speed. In today's world, speed is the most important competitive factor in business.

Borja González: And turnaround times are much shorter. Therefore, you also need a different mindset—one that is more flexible with regard to new uncertainties. This brings

us to concepts like creativity, experimentation, and curiosity. There is no such thing as failure, only lessons learned.

Cristina Álvarez: The way to learn is by doing. It's better to have an improvable product on the market than none at all. It provides competitive advantages and agility. But you have to be the first, even if the product is imperfect. The customer will always buy that convenience.

Cristina Álvarez, Professor of Digital Transformation and Innovation Leadership at IE Business School, and Borja González del Regueral, Professor of Business Analytics and Innovation at IE Business School and Vice Dean of IE School of Human Sciences and Technology.



STARTUPS -----VS. SCALEUPS

—
Joe Haslam, Executive Director
of the Owners Scaleup Program
at IE Business School.

JOE HASLAM

The proliferation of startups continues to be unstoppable in a world that makes more obvious the necessity to not solely undertake, but also to make new projects have a long and prosperous life. In this infographic, Joe Haslam, Executive Director of Owners Scaleup Program at IE Business School, reflects on the differences between a startup and a scaleup, and on what makes the latter a business capable of generating wealth.

1

A STARTUP
IS TO
PUT OUT FIRES

A SCALEUP
IS TO
LIGHT FIRES

2

A STARTUP
IS ABOUT FINDING
OUT WHERE YOU
ARE STRONG

A SCALEUP
IS ABOUT FIGURING
OUT WHERE YOU
ARE WEAK

3

A STARTUP
NEEDS
GENERALISTS

A SCALEUP
NEEDS
SPECIALISTS

4

A STARTUP
EXPERIMENTS

A SCALEUP
SIMPLIFIES

5

A STARTUP
CAN MAKE YOU
FAMOUS

ONLY
A SCALEUP
CAN MAKE YOU
RICH

EUROPEAN RETAIL AS A DRIVER OF INTERNATIONALIZATION AND SUSTAINABILITY

IGNACIO SIERRA

Trade liberalization and a commitment to sustainability are Europe's main competitive advantages in the globalization age. The distribution and textile industries have been pushing towards leadership marked by the values brands convey in the market, which have proven themselves to be the true paradigm of exportation.

The first years of the most recent global economic crisis gave a definitive boost to the globalization and internationalization of the vast distribution sector. Major brands adopted an omnichannel approach to their operations that made it easier for them to complete their purchasing and sales processes anywhere in the world. In the textile industry, this advance was especially notable.

Textiles have historically been a driver of social development, much like mining, fishing, and agriculture were in their heyday. The textile trade has likewise contributed to the growth of the middle class and *petite bourgeoisie* in developing societies, although the pace of these changes varies by region as a function of demographic factors such as mass migration from the countryside to cities. The strategic importance of this sector is apparent from the fact that tariffs on textiles are well above the global average.

Impacts of globalization

Nowadays, fashion moves all over the globe. Countries once viewed as developing economies are now attractive sites for stores and production centers. GDP has evolved worldwide, with growth tripling over the past three decades in the poorest regions of the planet. Thanks to free trade, the European Union has emerged as the

clear leader of the import and export markets. With a global market share of more than 32%, the continent outpaces both the United States and China in the importation and exportation of goods and services. On the employment front, globalization has also created more than 30 million jobs in Europe over the past 25 years.

Europe comes out winning, but so do regions with fewer resources. Measures established by the continent have enabled other countries to export their products in exchange for guarantees of human-rights protections, compliance with international labor laws, etc. This policy is implemented through the Generalized System of Preferences (GSP+). The objective of internationalization—beyond safeguarding the European Union's economic interests—is to guarantee sustainable development of the global environment and respect for human rights by encouraging the democratization of developing countries.

If these conditions are not met, certain players can be excluded from the export scene. An example is the case of Sri Lanka, whose government was accused of war crimes and human-rights violations in its military offensive against the Tamil rebels. Such examples demonstrate that any firm wishing to establish itself in a particular country must study geopolitics and socioeconomics, since decisions in these realms can favor—or harm—the company's position and competitiveness in the market.

—
The objective of internationalization—beyond safeguarding the European Union’s economic interests—is to guarantee sustainable development of the global environment and respect for human rights by encouraging the democratization of developing countries.

Brand before product

Another competitive advantage arises from brands themselves. In the 1980s, major franchises (especially Italian and French ones) began establishing themselves all over the world, buoyed by the status of their brands. This expansion proceeded despite the neglect of various fundamental aspects: brand control in networks of small franchise-holders, customer experience, logistics systems, etc. Nevertheless, brands have proven themselves to be the true paradigm of exportation, since they travel faster in consumers’ minds than products can. Without differentiation, a firm can only compete in costs or price.

Under this perception, a brand is a guarantee for investors and customers who are looking for answers on the market—an ironclad bond for stakeholder confidence. The values promoted by brands are highly influential in many societies. Regardless of the impact of digitalization and the challenges that lie ahead,

the meaning of a brand must be constant. Unwavering consistency in this regard is an essential virtue, as is a steadfast commitment to sustainability.

Integrated sustainability

In addition to fostering a commitment to customers, the retail and textile industries must also focus on developing sustainable exportation models. All organizations should view sustainability not as a mere accessory but as a key part of their value proposition. This is true in all areas, but especially in the most profitable sector of the fashion business: luxury. This sector must incorporate sustainability—nowadays an expensive but aspirational concept—into its differentiation strategy, in contrast to the notion of ostentatious luxury. Through processes that make sustainable products more affordable, it could once again become possible to change the rules of the game and develop new products and consumer goods unlike those currently available.

Social demand is ultimately being channeled towards new processes labeled *sustainable*. Measures such as using environmentally friendly energy sources and reusing, recycling, or repurposing production elements are not only aligned with consumer demands but also present business opportunities.

Let us return to the question of Europe’s leadership in matters of internationalization. With many European brands leading the global sales rankings, the current challenge—in terms of the competitiveness of retail and fashion—is to stake out a position that firmly combines development and sustainability with certain open measures for free trade.

—
 Ignacio Sierra, Corporate General Manager of the Cortefiel Group and Professor in the Programa de Dirección de Retail at IE Business School.

AREAS OF OPPORTUNITY FOR TEXTILE COMPANIES

At the micro levels, textile companies are making strategic moves to strengthen ties with customers through various actions:



1 IMPROVING THE CUSTOMER EXPERIENCE THROUGH AN OMNICHANNEL APPROACH.

2

HIRING DATA ANALYSTS CAPABLE OF DELIVERING THE BRAND TO THE CUSTOMER RATHER THAN TARGETING ANY LARGER GROUP.



3 DE-GENERALIZING AND PERSONALIZING PRODUCTS.



TECHNOLOGY · INNOVATION SMART SOCIETY

JAMES MURRAY:

**“CONQUERING
SPACE REQUIRES
A BUSINESS
MODEL”**

Human migration to other planets could be just around the corner. Projects currently underway are pursuing a wide range of goals—from colonizing Mars to tapping asteroids as an energy source. A new space race is upon us. This time, however, the question is not who can get there first, but who can develop the right business model. In this conversation with William Dávila, Executive Director of Corporate Relations at IE, OffWorld co-founder James Murray argues that space exploration must yield tangible benefits for our planet.





—

“One peculiar aspect of investigating technology to build colonies on other planets is that this innovation will also be very useful for solving problems here on Earth”

William Dávila: The space industry will be a driver of growth in the coming years, thanks in part to NewSpace initiatives. Private companies and entrepreneurs are forging ahead in a new space race. Where does OffWorld fit into this picture?

James Murray: We founded this company two and a half years ago with the aim of preparing other worlds for human industrial civilization. We are developing an intelligent, autonomous, robotic workforce that will enable us to achieve this goal. I am convinced that this technology will benefit everyone here on Earth.

That’s really our calling. We’ve been working in this direction for more than 20 years. At OffWorld, we are convinced that human beings at the dawn of the 21st century are on the brink of becoming a universal species. We are working on various aspects of this challenge, including transportation and all the things we will need when we reach our faraway destinations.

William Dávila: Speaking of faraway destinations, why do you feel it is important to go to space when there are still so many challenges and so many new opportunities to explore here on Earth?

James Murray: We now have a new frontier. Over the centuries, humans have occupied extreme environments all over the Earth, finding ways to adapt and make a living in every corner of the globe. This restlessness is part of what it means to be human, so it’s only natural that we will eventually go into space. There are countless explanations: we’re curious, we want to expand, we want to explore. But we also expect that the journey beyond our atmosphere will yield remarkable new discoveries—things we never imagined could exist, things that will benefit all of humanity.

William Dávila: Let’s talk a little more about the ways in which these advances will benefit all of humanity. For more traditional sectors and industries, what new business opportunities will be opened up by space exploration?

James Murray: One peculiar aspect of investigating technology to build colonies on other planets is that this innovation—this workforce of industrial robots—will also be very useful for solving problems here on Earth. This is where short-term business opportunities come into play. These robots will be very valuable for improving our quality of life and the business of industrial civilization.

William Dávila: Some of the technologies being developed for this space race will also be useful in other fields. Which technologies do you think have the most crossover potential?

James Murray: We should distinguish between companies that develop space technology—which is clean, sophisticated, and very advanced—and companies like OffWorld, which develop innovations for space settlement. Settlement is somewhat less glamorous: it involves mining, construction, industrial processes, and so on. But this is the stuff that we need to survive on other worlds. The idea is to send this sort of capability to the surface of the Moon, or to Mars, or to asteroids. This is a complex challenge, but it’s essential as a starting point.

William Dávila: Lately we’ve been hearing a lot about Mars as a short-term goal and rather less about the Moon. Do you think the Moon should be a part of any future space plan? And, relatedly, why should we explore Mars?

James Murray: It could be the Moon or Mars—it largely depends on which planet is in

fashion at any given moment. In any case, there are certain strategic reasons why the Moon is the best choice right now. The Moon is like a base camp or a filling station—a place where we can acquire lots of useful materials. The discovery of water 25 years ago is another key factor. If you have water, you also have oxygen and hydrogen. This means that you can grow food and process whatever materials may be present on the lunar surface—for example, titanium and iron.

As for Mars, we’ll eventually get there. It’s a bigger planet with a reasonable atmosphere—although not dense enough to sustain life. Mars would be the natural second or third step in human expansion. Over the next hundred or two hundred years, industrial civilization will expand throughout the solar system.

William Dávila: In any case, the preparations are more complex for Mars than for the

—
“There’s no point in going to space without a development plan. We have to get the technology right, and we’ve got plenty of time to practice here on Earth”

Moon, although Mars does have certain resources that make it very attractive...

James Murray: The Moon is relatively close, so we can actually get there quite quickly. The better we prepare our capabilities here on Earth, the faster we’ll be able to go. There’s no point in going somewhere without a development plan. We have to get the technology right, and we’ve got plenty of time to practice here on Earth.

William Dávila: As you mentioned before, the Moon offers certain important resources, although some asteroids are also home to various materials of interest. Can we use the same technologies to take advantage of these resources in both cases?

James Murray: With the technology currently available, mineral extraction is a relatively simple activity. The difficulty depends largely on where you decide to go—to the lunar surface, or to a particular

asteroid. There are many different types of asteroids. Some contain volatiles such as water. Some are pure metal. Others are like a desert—full of sand. Ultimately, the technique used will depend on the specifics of the mission.

William Dávila: As competition has grown in the space industry, the cost of sending payloads into space has fallen. What other sectors could be affected by this decrease in costs?

James Murray: One of the interesting aspects of colonizing space is that it leads to developments that benefit civilization here on Earth. It makes no sense to send someone into space unless we get something in return. These missions have to have some value. Right now, one of the biggest values is the ability to gather energy from orbit and transmit it down to Earth to complement all the renewable-energy initiatives now being put in place. This is a relatively simple step towards weaning

ourselves off our dependence on fossil fuels, which is a problem that we absolutely must solve this century.

<https://air-space-initiative.ie.edu>

—
 James Murray is a co-founder of OffWorld, a company dedicated to developing the first generation of autonomous robots that will lay the groundwork for a sustainable presence on the Moon, Mars, and many asteroids as an extension of our activities here on Earth.

William Dávila,
 Executive Director of
 Corporate Relations
 at IE.



ROBOTS AND AUTOMATION TO TAKE UP LEADERSHIP

RICARDO PÉREZ

The exponential development and maturity of new technologies pose new challenges to the organizations that they should address from a more creative perspective. After a period of strong relocation of production processes, robots and automation open up a huge opportunity to work in super-connected environments and offer high value propositions. In this infographic, Ricardo Pérez, Professor of Information Systems at IE Business School, reveals the keys so that companies and workers can adapt to this new reality by boosting their growth and enhancing their skills.

Ricardo Pérez, Professor of Information Systems at IE Business School.

MORE SENSORS AND DATA

SOFTWARE THAT LEARNS FROM THE ENVIRONMENT

MORE CAPACITY AND FASTER PROCESSING

CHEAPER COMMUNICATIONS

MORE ECONOMICAL AND EFFECTIVE TECHNOLOGY AND MORE USAGE

TECHNOLOGICAL MATURITY

1

EMPLOYMENT GROWTH

- GIVE VALUE TO VOCATIONAL TRAINING
- GIVE VALUE TO DIGITAL ARTISANS
- INCREASED BUSINESS COMPETITIVENESS

2

RETURN OF PRODUCTION

- TO HAVE PERSONNEL ABLE TO WORK IN SUPER-CONNECTED ENVIRONMENTS AND WITH ROBOTS
- NEED FOR THOUSANDS OF ENGINEERS AND MATHEMATICIANS
- RETAIN TALENT IN TRADITIONAL COMPANIES

MORE COMPETITIVE COMPANIES

- CREATIVITY BASED ON CONCRETE NEEDS
- REWARD THOSE WHO BRING NEW IDEAS AND REAL PRODUCTS
- CREATE ATTRACTIVE CAREER PLANS IN TECHNICAL AREAS
- UNIVERSITY TRAINING FOR EXPERTS
- PROMOTION OF PRACTICAL AND DIVERSE TRAINING
- BOOSTING THE COMPANY-UNIVERSITY UNION

CHALLENGES IN THREE MAJOR AREAS

3

TEN COMMANDMENTS FOR DIGITAL TRANSFORMATION IN SMEs

ALUMNI, BERNARDO CRESPO AND
SUSANA RODRÍGUEZ

Just like their larger counterparts, small and medium-sized enterprises also have to face up to the challenge of digital transformation. As well as new technologies, they also have to address key aspects involving people, data and processes. This animation provides a quick run-down of the “Ten Commandments” SMEs need to follow in their strategies in to adapt to a context of vast change. One key recommendation: switch from the concept of “employer” to that of “entrepreneur”.

—
Alumni of the third edition of the Digital Transformation Management Program at IE Business School and Bernardo Crespo and Susana Rodríguez, Academic Directors of the Program.

Design the company's new strategy digital transformation.

To transform your offer, you must harness the technology available in the cloud, as used in the market for process automation.

In addressing the new strategy and digital transformation, you must decide what leader is most suitable.

Data change your relationship with your customers, who have never had so much power or knowledge. Make the most of data to expand your knowledge of your customers.

The world and society are changing at an unprecedented pace. SMEs will need to introduce aspects of start-up culture in order to recruit and retain talent.

Any transformation, digital or not, starts with people. Transformation must be led by the owner or manager.

While you are transforming your offer, you should also be planning and beginning to transform demand.

Data is the “coal” of the fourth Industrial revolution. Using data, you can make strategic and operational decisions.

Understand what new technologies can contribute and explore new business models. If you were founding the SME today, how would you go without it?

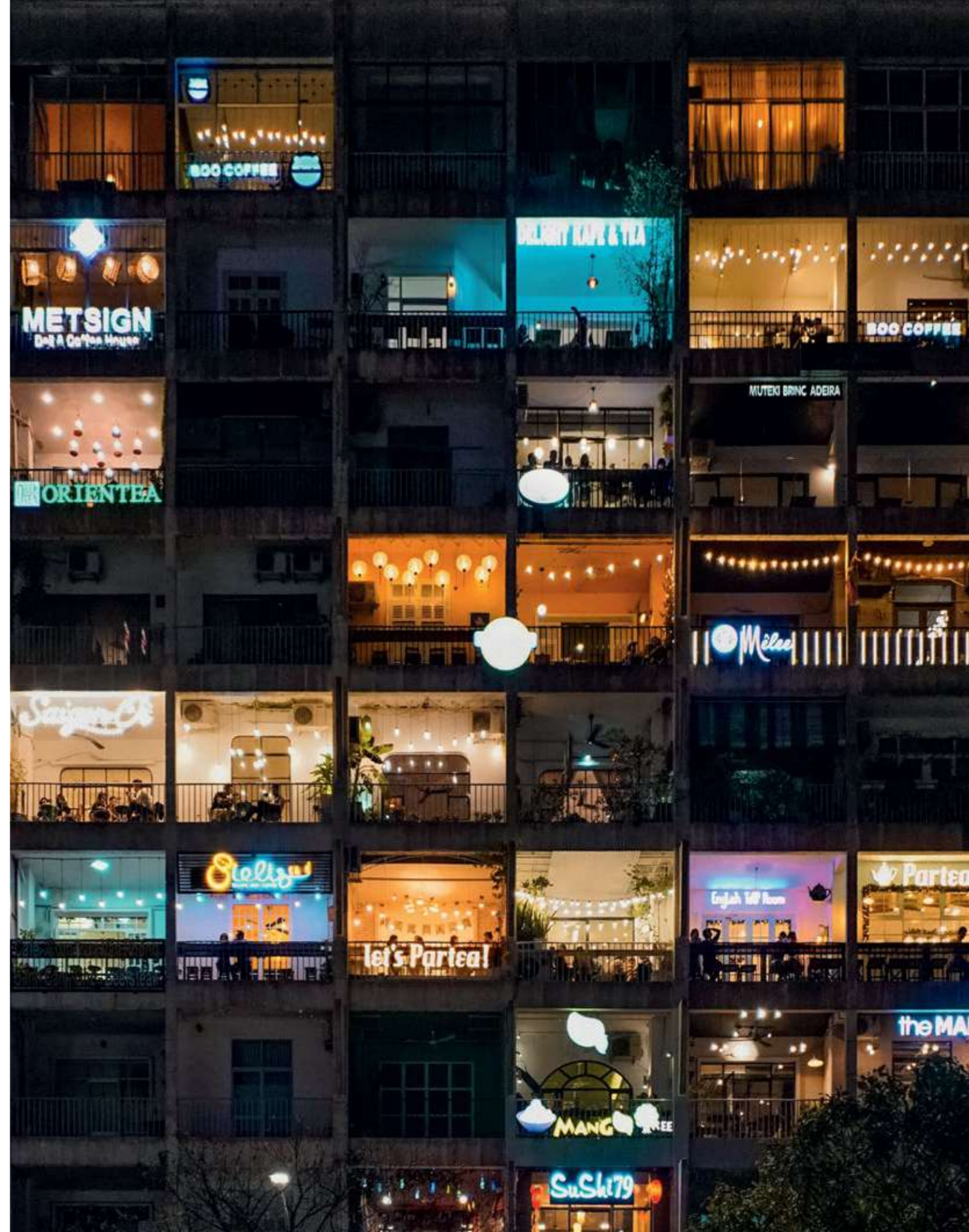
To compete with new markets and GAFAs (Google, Amazon, Facebook and Apple), it is vital to interact and collaborate through ecosystems.



GDPR: REASONABLE LOGIC, UNREASONABLE EXPECTATIONS

ANTONIOS STAMATOIANNAKIS

One of the main objectives of GDPR is to give individuals control over their personal data. But does the new law really make it easier for people to manage the huge amount of data that they have shared?





The General Data Protection Regulation (GDPR) recognizes that it is very difficult for individuals to have control over the massive amount of data that they have shared. But to solve this problem, the new law asks people to monitor an equally massive amount of privacy agreements.

As the proposal for GDPR suggests, “Rapid technological developments and globalisation have brought new challenges for the protection of personal data. The scale of data sharing and collecting has increased spectacularly... Individuals should have control of their own personal data and legal and practical certainty for individuals, economic operators and public authorities should be reinforced.”

So far, so good. It is true that ongoing technological developments require individuals to share more and more data online. It also sounds fair that this personal data belongs to the individuals, who should have control over how and when it is used. So, in spirit, everything makes sense. Now let’s look at the practical implementation of the part of GDPR that involves how individuals exercise control over their personal data. In practice, what individuals faced was an avalanche of really long emails. Every single one of them explained the rights that individuals have under GDPR and included all kinds of related information. Each email also prompted individuals to indicate whether they agreed with the described use of their personal data.

Reasonable (?) expectations

Again, in theory, this is okay. Everyone was given the opportunity to review their rights and indicate if they disagreed with any use of their data. Or were they? A small-scale survey conducted by some of my students¹ revealed that 60% of the respondents did not read the privacy agreements sent to them at all and that 25% read the agreements for one minute or less—a miniscule amount of time given the length of these texts. Moreover, 60% of the respondents have not read the GDPR policy itself at all. Of these, 83% did not read it because it was too long and 84% said they would have read it if it was shorter.

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A large percentage of individuals—perhaps even the vast majority—are not aware of, and thus cannot enforce, their personal data protection rights.

Although we cannot claim that this sample is representative, these numbers suggest that a large percentage of individuals—perhaps even the vast majority—are not aware of, and thus cannot enforce, their personal data protection rights, because the regulation that protects these rights was too demanding. From this perspective, GDPR seems to fail, at least for now.

But what, exactly, is the problem? After all, GDPR just expects individuals to take time to inform themselves about and exercise their own rights. Is this expectation reasonable? Let me quote again from the GDPR proposal: “The scale of data sharing and collecting

has increased spectacularly.” Thus, no: Expecting individuals to carefully read a mountain of very long privacy agreements pertaining to a “spectacularly increased” amount of information does not sound reasonable.

Let’s bring the pieces together: (a) given the massive scale of data sharing, GDPR aims to give individuals control over their personal data, but (b) it does so by requiring individuals to keep track of an equally massive number of data-policy agreements. In other words, GDPR recognizes that it is hard for individuals to have control over the massive amount of personal data that they have shared, but to fix this problem,

the law asks individuals to monitor an equally massive amount of privacy agreements.

Make it easy

From this perspective, what effects could GDPR have in the medium to long run? First, any company can easily comply with GDPR. The main requirement is to send data subjects a long email explaining all their rights and giving them the opportunity to prohibit the use of their data. Second, in all likelihood, most recipients will not read these emails and will just accept whatever is asked of them. Thus, most individuals will not know what their real rights are and how to exercise them. Third, although in theory



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GDPR aims to give individuals control over their personal data, but it does so by requiring individuals to keep track of an equally massive number of data-policy agreements.

all personal data will be used with the consent of the data subjects, in practice this consent is ostensible, as (predictably) most individuals will be unaware of what they have consented to.

Let me close by quoting the mantra of Richard H. Thaler, the recipient of the 2017 Nobel Prize in Economics: "If you want people to do something, make it easy. Remove the obstacles." In this case, if you want people to actually read and exercise their rights, make it easy for them. Reading (and agreeing with) dozens of multi-thousand-word privacy agreements is something that people, predictably, will not do.

—
Antonios Stamatogiannakis,
Professor of Marketing at IE
Business School (IE University).

I would like to thank Alex Mtaini, Claudia Hubert, Ernesto Cifaldi, Ioannis Panagiotis Kipouros, Pablo Carbonero, and Ram Agarwal (graduates of the IE Master in International Management) for their interesting project on this topic and for allowing me to report some of their results in this article.

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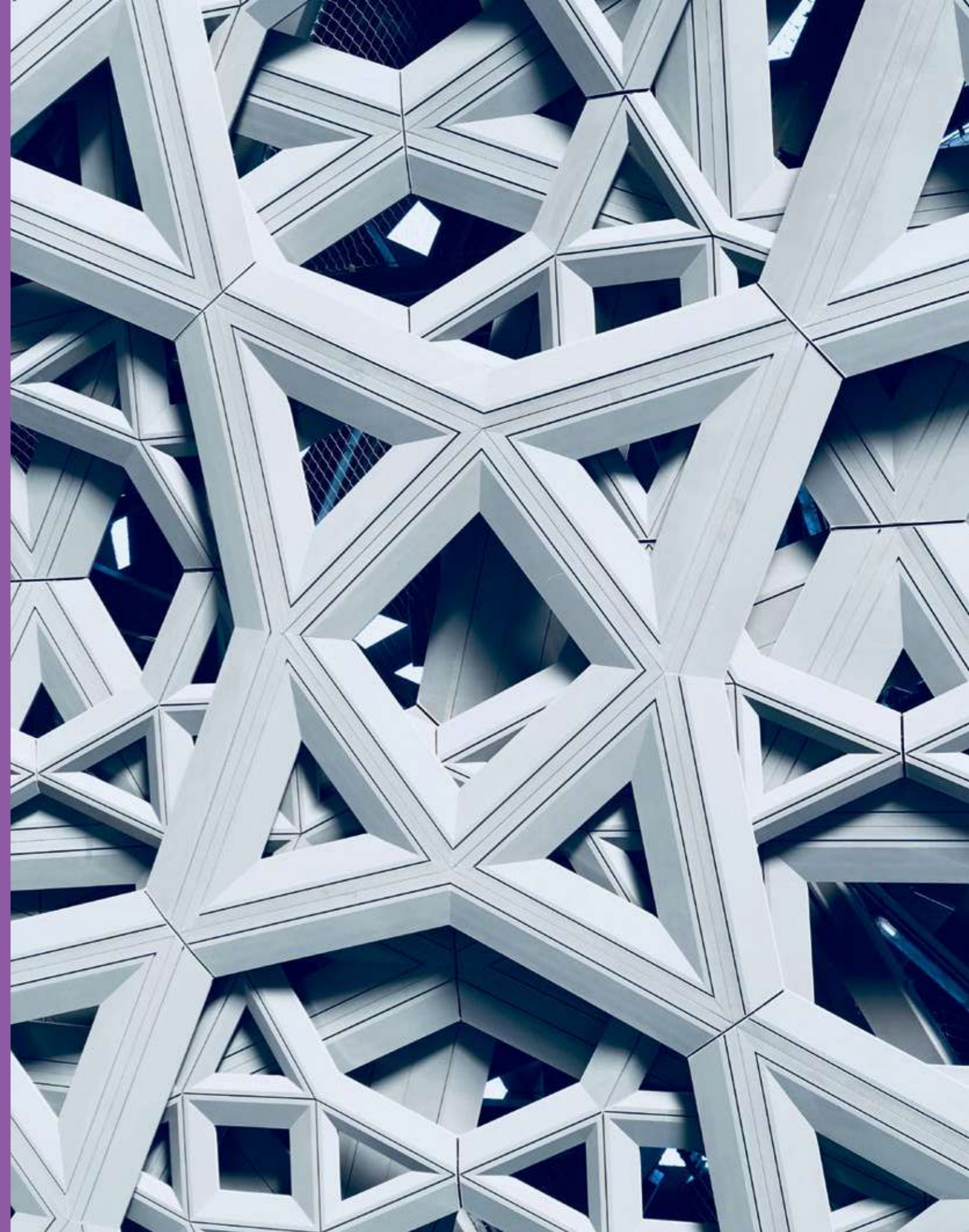
**ENTREPRENEURSHIP -
COMPETITIVENESS & GROWTH**



**A STRATEGIC
VISION FOR
THE ECONOMIC
CHALLENGES OF
THE 21ST CENTURY**

JUAN CARLOS MARTÍNEZ LÁZARO

Phenomena such as globalization, demographic shifts, and even climate change are influencing the global economy, creating uncertainties regarding the future and demanding urgent attention. Rather than focusing on short-term concerns, we should attend to structural changes that will have a global impact and shape the economy in the long run.





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The fruits of several decades' worth of economic growth and welfare-state policies have been wiped out by the financial crisis, imminent technological changes, and competition from the South.

In the 1970s and 1980s, two issues—oil and poverty—dominated practically every macroeconomic analysis. Nowadays, multiple variables come into play, including the technological revolution, globalization-related phenomena, and demographic changes. On the demographic front, many countries are starting to feel the symptoms of an aging and shrinking workforce. At the same time, migration faces rising levels of social and political rejection, particularly in Europe and the United States, despite being necessary to compensate for population decline and falling birthrates. Meanwhile, Africa and, to a lesser extent, Asia and Latin America will see a demographic explosion over the next 50 years, driving even more migration towards the aging and increasingly xenophobic North. Host countries will

find themselves swallowing ever larger doses of realism to address this intractable problem.

The aging of the population presents another complex issue: the sustainability of pay-as-you-go pension systems, which are verging on collapse in many countries. Governments must urgently start working to solve this rapidly approaching crisis.

Unstoppable globalization

Migratory phenomena have been exacerbated by globalization—a process that is here to stay and which, in economic terms, has created winners and losers. The winners include inhabitants of the regions that have managed to insert themselves into the flows of global commerce. In these regions, misery has abated and

famine—a regular occurrence not so long ago—has all but disappeared. However, as offshoring has gained momentum and competition among workers has surged, large segments of the working and middle classes of the most highly industrialized nations have disappeared.

Although globalization has narrowed the North-South gap, it has also fueled the rise of inequality in the North. The fruits of several decades' worth of economic growth and welfare-state policies have been wiped out by the financial crisis, imminent technological changes, and competition from the South.

Capital gains have grown exponentially over the past three decades—even during the crisis—and these riches have accumulated in small segments

of the population. Meanwhile, wages have stagnated or fallen, destroying the wealth of large swathes of the middle class, especially in Europe and the United States. These trends explain the various populist movements that have arisen over the past decade in response to social discontent.

Globalization has also created a world that is increasingly homogeneous, both economically and culturally. The main shopping streets of Madrid, Rome, and London have been colonized by the same multinational brands, making them virtually indistinguishable from one another. The same thing is happening with culture and customs, which are becoming more uniform, more assimilated, and less locally specific.

But globalization has done more than rewrite the social, cultural, and economic rules. Digitalization—and the imminent technological revolution it entails—will reconfigure labor markets and production models as we know them today.

Machines and algorithms

We are looking at a future in which algorithms and machines will replace millions of jobs all over the

world, especially those involving the most routine tasks. At the same time, we will see rising demand for skill sets unlike anything required today. The big question of the coming decades is whether or not there will be work for everyone. If there is not enough work, we will need to figure out what to do with—and how to support—those who are left behind by this revolution because they lack the newly demanded skills.

On top of all that, there is no guarantee that today's successful production models will survive. Digitalization is enabling new players to knock down barriers to entry that have traditionally protected many sectors and industries. On this new playing field, communication technologies are playing a key role by producing a previously unheard-of phenomenon: consumer empowerment. Armed with complete information and eager to share it with others, consumers are no longer passive subjects in their dealings with companies. Indeed, consumers have positioned themselves firmly at the center of the commercial relationship. This empowerment also has a political dimension: today's politicians use Twitter to communicate, but citizens can also exercise influence, join forces, make decisions, and topple governments with their tweets and texts.

Digitalization— and the imminent technological revolution it entails— will reconfigure labor markets and production models as we know them today.

Another aspect of today's global scenario is the rise of emerging countries and the shifting of economic power to the Pacific Rim. Asian countries have benefited from this shift, and China in particular has risen from local actor to global power in just a few decades. Indeed, China is not satisfied with mere economic power; it also wants to be a leader in geopolitics, technology, space exploration, and—naturally—military might.

To achieve these goals, China needs to guarantee its access to natural resources and its control over supply chains. It secures these advantages by funding—and driving into debt—numerous African and Southeast Asian countries, drawing accusations of colonialism 2.0. But China's rise and expansion have also generated tensions with regional powers like Japan and the lone global superpower: the United States. The so-called trade war is clearly a first step towards—or a pretext for—blocking China from supplying Western technology.

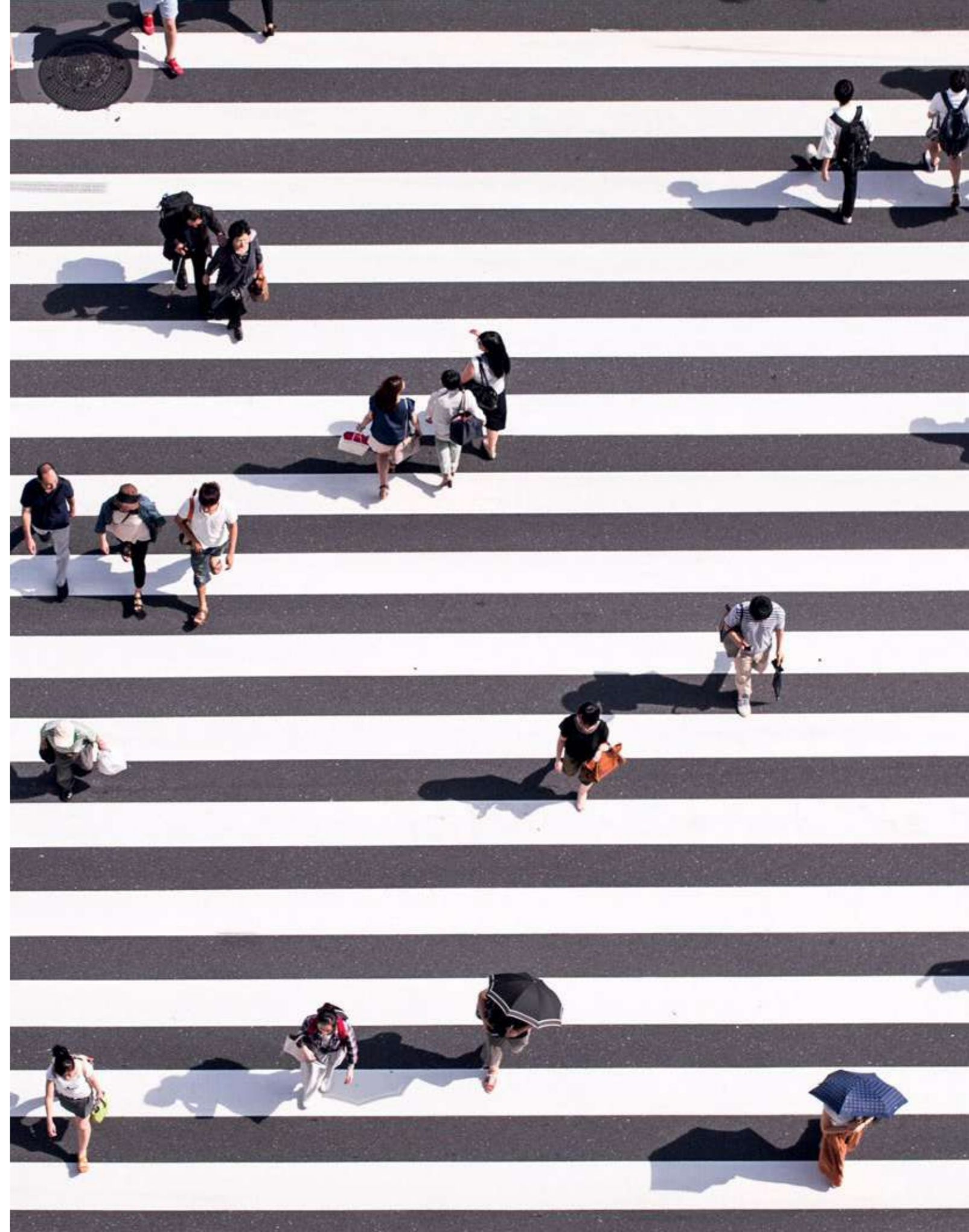
At any rate, China is reshaping the landscape of power in the 21st century. As concerns about climate change lead to the replacement of fossil fuels with clean energy sources, certain countries and regions that have shaped the geopolitics of energy for the past five decades will be pushed into the background. With this replacement process already underway, the fracking revolution has irrevocably altered the status quo of the hydrocarbon market, making the United States once again the world's top oil and gas producer.

The imminent changes driven by technological development, demographic shifts, climate change, and globalization are getting little attention from the world's

governments. The Western economies' prevailing short-term vision—which disregards factors poised to shape the economy over the coming decades—cannot help us address the great social and economic challenges of the future. The welfare-state model provides an instructive example: we know that the current situation is unsustainable, but government officials refuse to undertake reforms, for fear of the political cost.

The economy, firmly rooted in short-term political considerations, has been unable to offer real solutions to the challenges that lie ahead.

—
Juan Carlos Martínez Lázaro,
Professor of Economic
Environment at IE Business
School.





LEADERSHIP MODELS FOR STARTING AND GROWING BUSINESSES

SIMMON GIFFORD AND SARAS D. SARASVATHY

Each phase of business development requires a particular leadership model. After startup—one of the most critical phases—a company must evolve into an established organization. A combination of two complementary leadership profiles can help to guarantee the sustainability of a business over time.

The entrepreneurship boom of recent years has produced leaders that stand in stark contrast to our classic idea of a business executive. These two types of leaders share certain abilities but don't usually approach business ideas in the same way. A recent study highlighted the differences between today's entrepreneurs and traditional MBA-trained executives.

The study found that, given the same business idea and the same set of available technologies, the two groups approached the task of starting a business in different ways. The traditional MBAs used "causal reasoning"—that is, they tried to identify the optimal alternative for achieving their goals using the available means. Causal reasoning is based on the following logic: *To the extent that we can predict the future, we can control it.* The method preferred by the MBAs was to study the market, segment it, choose the optimal segment, and then develop a positioning accordingly.

The entrepreneur discovers the customer

In contrast to the MBAs' causal, analytical style of logic, the entrepreneurs used "effectual reasoning": rather than setting a specific goal, they started by taking stock of the resources at their disposal and then let their goals emerge over time. During the startup stage, entrepreneurs think about their values and skills (who they are),

their education and experience (what they know), and their contacts, including friends and possible business partners (whom they know). Drawing on the valuable ideas generated through this process, they then imagine various scenarios, perform tests, and examine the results.

In one such test, potential customers are asked to assess a possible product or service and provide key knowledge for future development. At this point, the entrepreneur begins to "discover" the customer and, perhaps more importantly, the customer gets involved in the creation process. Co-creation enables the company to obtain some degree of future commitment from the customer. Discovery of the customer allows the entrepreneur to define the market and, thus, the strategy.

The entrepreneurs used "effectual reasoning": rather than setting a specific goal, they started by taking stock of the resources at their disposal and then let their goals emerge over time.

The business world is rife with success stories created through this approach. With thousands of locations all over the world, the Starbucks coffeeshop chain is an excellent example of products based on personalization.

Chart 1 (p. 48) breaks down the advantages of each profile, although some business schools have introduced an interesting experimental approach to entrepreneurship that draws on both leadership models.

A different sort of logic

The fundamental difference between the two approaches has to do with efficacy and the scenarios posed by the market. Although neither approach is correct or incorrect, we can say that effectual reasoning, the approach preferred by

entrepreneurs, is better at reducing risk and is more appropriate in situations with hard-to-predict futures and the potential for adverse customer reactions. For established businesses, which are more predictable and have access to reliable information, causal reasoning is the optimal solution. (Chart 2, p. 48)

Growing pains

The problem arises when a startup begins to evolve into an established company. At this point, the company needs to start combining the effectual approach with the causal approach. This transition can be rocky, as it entails a shift in mindset. A successful startup always reaches some inflection point where its thinking logic needs to move from effectual to causal. This step is necessary in order for the company to grow, but many entrepreneurs resist taking it. Some are simply unable to change their style or way of thinking, while others fail to recognize the need to change.

The mindset best suited to sustaining a startup over time is one that combines both profiles—entrepreneur and MBA. Likewise, the differences between the two leadership models reflect a growing interest in training models—now being offered by some business schools, and IE Business School is one of the best schools at entrepreneurial education—that take an experiential approach to entrepreneurship.



CHART 1. CAUSAL CHEF VS. EFFECTUAL CHEF

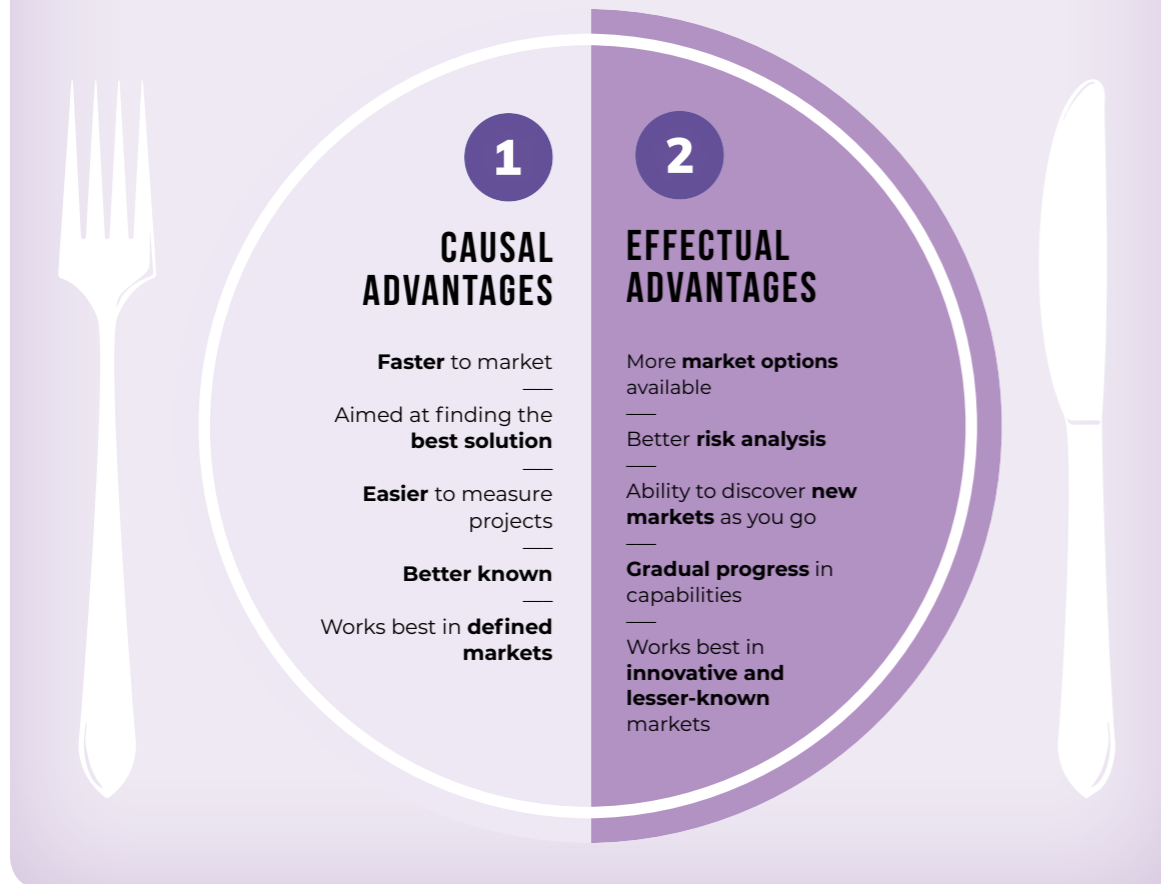


CHART 2. CAUSAL CHEF VS. EFFECTUAL CHEF

To understand the differences between the causal and effectual approaches, consider a simple analogy involving two chefs. The causal chef designs the menu, goes out to buy the necessary ingredients, and then cooks the meal, whereas the effectual chef looks in the pantry and prepares a meal using whatever ingredients are available.

— Simon Gifford, Adjunct Professor of Strategy and Entrepreneurship at IE Business School and Co-founder and CEO at Mashauri, and Saras D. Sarasvathy, Paul M. Hamaker Professor of Entrepreneurship at the University of Virginia Darden School of Business.

95% of business leaders don't consider themselves digital leaders

- They can't be expected to know everything
- How can I spread digital knowledge to my team?

change is attitude

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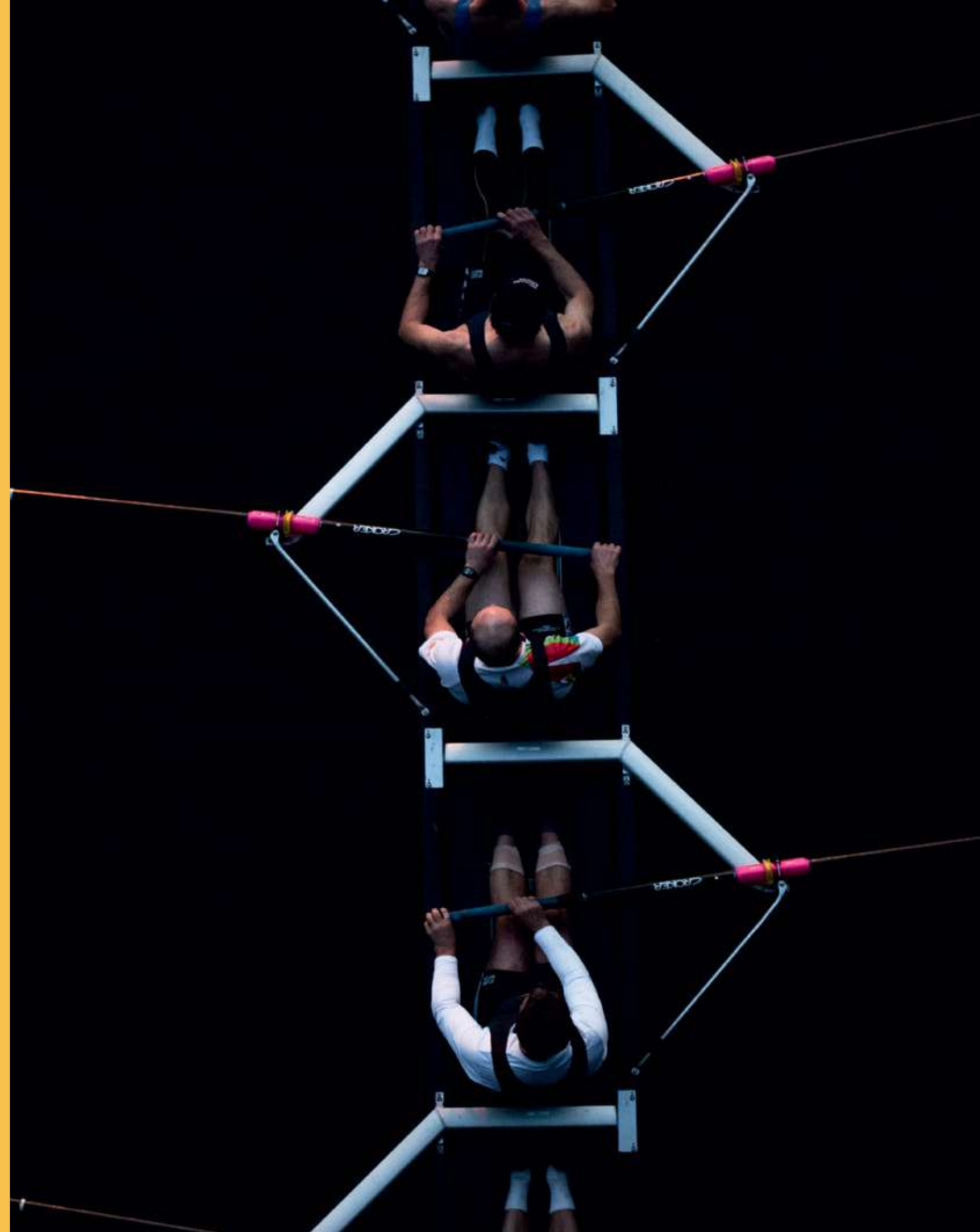
TALENT - HUMAN BEHAVIOR

**BOOSTING EMPLOYEE
PERFORMANCE AND
ENGAGEMENT WITH
POSITIVE LEADERSHIP AND
BEHAVIORAL
FITNESS**

LEE NEWMAN

How can today's CEOs get more out of their teams? By acting more like CBOs—chief behavioral officers — adopting positive leadership practices, designing great employee experiences, and providing behavioral training.

After all, human capital is the key to achieving financial objectives.



Business and financial objectives, while essential for any organization, can distract executives from their true leadership mission: ensuring that the people who make up the organization perform at their best. Leaders must focus on leading people; numerical objectives are achieved naturally as a result of this leadership.

The need for CBOs

Staff engagement and positive workplace behaviors are essential to any company's success, CEOs should reinvent themselves as CBOs: chief behavioral officers. As Sir Ken Robinson noted in his renowned TED Talk, the true role of leadership is not about command and control, but climate control. CBOs create environments that allow people to thrive, facilitating high performance from every employee and every team. When the right conditions are created, the impossible becomes possible.

Dean Newman takes this one step further. He characterizes the CBO as an “experience designer”—someone who applies best practices from the world of *customer experience* to achieve great *employee experiences*. CBOs design

organizational structures, organizational climate, team and individual incentives, and the overall culture of the company. Trust, safety, permission to innovate and fast-fail, incentives that reward sharing across units and functions—these are just a few examples of the levers used by CBOs to optimize the employee experience.

Why does the business world need CBOs? Across sectors and countries, study after study shows that employee engagement is too low. For example, Gallup finds that only about 15% of employees worldwide are *fully engaged* in their jobs, and even in the countries with the highest engagement this figure is only 35%. This means that the vast majority of employees are *partially engaged* or *actively disengaged* from their work. The CBO's mission is to ensure that the proper conditions are in place to engage employees, enabling them to innovate, to work autonomously and to develop and use their strengths to the fullest degree.

Tools for increasing employee engagement

Positive leadership can boost employee engagement and performance with three very powerful tools:

1. TRAINING MINDWARE.

Psychology and behavioral studies have given us mechanisms that can help people understand their own thinking processes and train themselves to think and make decisions with much higher quality — but without adding much time. People's mindware—the mental processes that direct behavior and thinking — can be trained and developed to help them do their jobs better. One example is the practice of mindfulness, which offers employees a practical way to train themselves to better manage their attention — a critical component that we use in every meeting, conversation, or task. The work of the Nobel laureate Daniel Kahneman sheds light on the many “biases” that we have in thinking and decision making. Techniques from behavioral decision making can help employees learn to use higher-quality ways of reasoning and making their decisions.



2. CULTIVATING POSITIVE ENVIRONMENTS.

We know that employee well-being is associated with better results for the organization. And hard science shows clearly that our mindware works better when our daily ratio of positive to negative emotions is high. Beyond focusing on individual behavior and decision making, leaders as CBOs need to focus on developing a work climate that maximizes employee performance. To create a positive environment, the ‘emotional aspects of employees’ day-to-day circumstances must be addressed, with an eye to reducing negativity and boosting positivity. By measuring positive and negative emotions over time using simple questionnaires, the company can determine the prevailing level of positivity or negativity in each team or unit. Negative emotions have at least twice as much impact on people psychologically as positive emotions. Simple actions — redesigning meetings, learning to lead inquiry-based dialogue, and communicating more transparently — can encourage positive emotions to flourish. Talent development and training make people more passionate and more likely to seek out new challenges.

3. BEHAVIORAL FITNESS TRAINING.

Regions of the brain associated with reward-based learning are responsible for automating behaviors — “wiring-in” both our good and bad habits. So changing unproductive workplace behaviors can be very difficult. Like a physical fitness program we might pursue to help us get in better physical form, behavioral fitness is a paradigm for helping employees to identify the “behavioral muscles” to be trained and it provides neuroscience-based techniques for training carrying out this training. Using the workplace as a kind of “behavioral gym,” employees work on retuning unproductive behaviors: listening more actively, being more open-minded, being more structured in speaking and communicating, or being more patient in team contexts. Drawing on the neuroscience of habits, Dean Newman presented a framework called “Habit Hacking” that provides a structured and gamified way for people to increase the chances of succeeding in their behavior-change goals.



These tips can help business executives to increase employee engagement and exercise positive leadership. As staff performance improves, so will the company's bottom line.

—
Lee Newman, Dean of the IE School of Human Sciences and Technology and Professor of Behavioral Science at IE University and IE Business School.

HOW TO GET WINNERS, NOT WHINERS

ERIK W. HIEP

In today's rapidly changing, highly competitive environment, the benefits of a winning corporate culture are well documented. A highly engaged workforce that is empowered, energetic, and committed is more creative, client-centric, and focused on delivering stronger results for the company.





All business leaders want their people to be committed to the company's mission. We want all staff to be passionate and capable of engaging with clients. Employees love being on a winning team, and engaged clients buy more and are willing to pay more—which is good news for the bottom line.

This is what business leaders want, but ultimately you get what you tolerate! If you tolerate mediocrity, a lack of passion, a win-lose attitude, and avoidance behaviors, you will not create a winning culture.

Winning culture

If you want to achieve strong results, you'd better have an organizational culture steeped in

winning. The first steps in creating such a culture are to select capable people and to build teams fueled by trust. Trust is one of the most powerful forms of motivation and inspiration. With trust comes drive and the ambition to win. In other words, trust-based teams help individuals to win. People have an inherent desire to be trusted and to trust others. Trust is a function of character (integrity, internal drive, and intent) as well as competence (capabilities, skills, and results).

You can't force people to trust you. Leaders are focused on results, success, and business wins, which they achieve by making non-stop decisions about people, strategies, clients, and resources. But successful leaders must also be visionaries who are capable of telling stories and persuading others.

To influence others, first you must listen. When employees see this quality in their leader, they are much more likely to respond positively and open up. Building this trust is more critical than ever before. Trust produces speed and results, which in turn drive a culture of winning.

From working with clients around the globe, I know that managers must adapt to the local culture in order to succeed. Nevertheless, individual human needs are similar in all countries. The same can be said of the basic rules of doing business: create trust, provide credibility, deliver the promised results, and you will generate success.

The first steps in creating such a culture are to select capable people and to build teams fueled by trust.

The economic landscape has shifted under our feet; now more than ever, we must focus on winning and achieving our ambitions. My 15 years as an international management

consultant have taught me that ego, fear, and pressure are not business accelerators. It's all about connection, energy, and trust—the key elements of winning.

We are in the business of building winning cultures. We make sure business leaders are able to engage their people to win in the marketplace and create “raving fan” client relationships.

Leadership development

Leadership development is the key to executing an ambitious strategic agenda. If you want to create a winning culture, prioritize the development of leaders who embody five types of leadership:

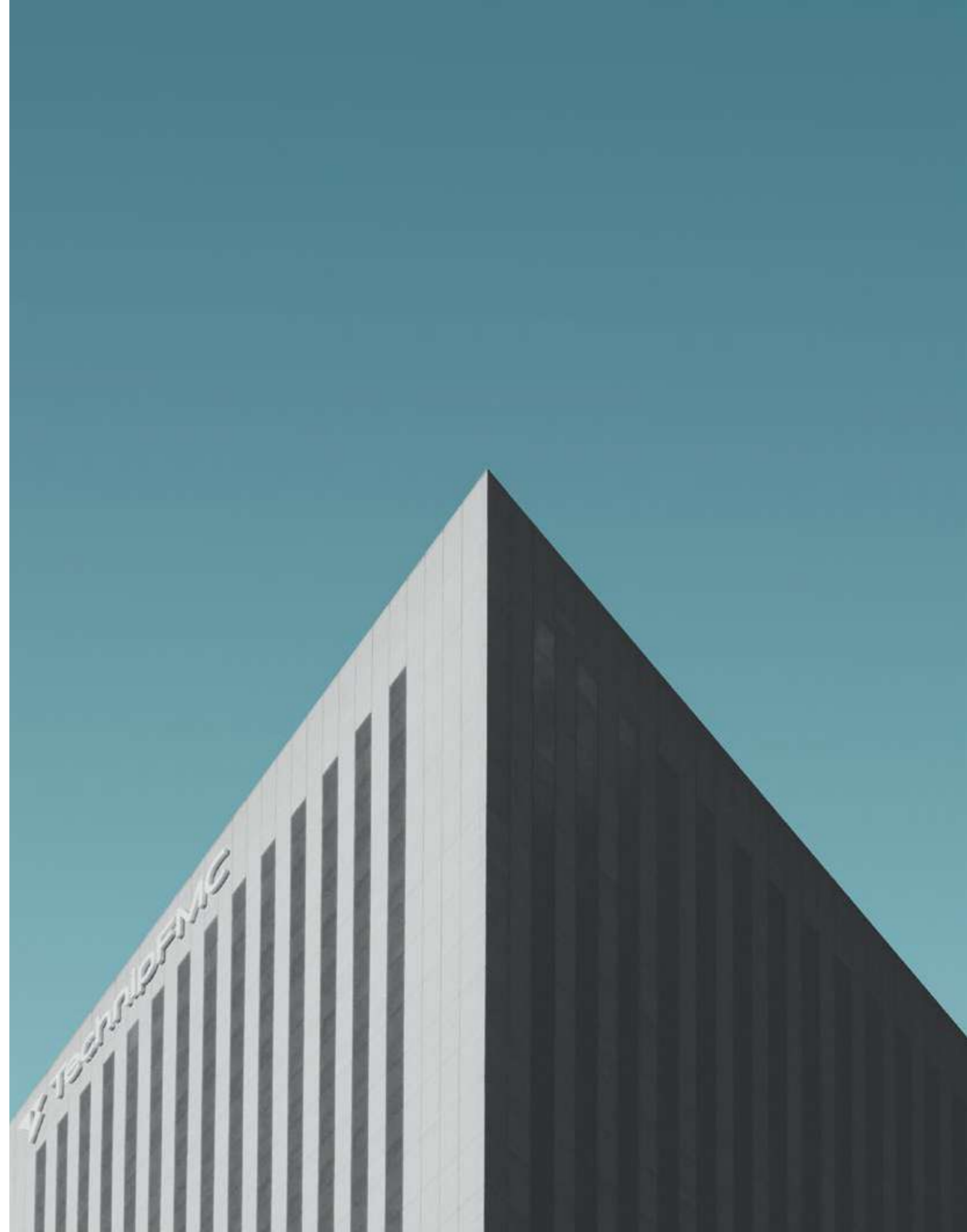


Leadership development needs to be a part of your business strategy. If you want to win, commit to engaging 100% of your staff to focus on the company's goals.

And how can you achieve this? By cascading down to every single member of the company why we do what we do, what we stand for, what

exactly we are trying to achieve, and how we will make it all work.

—
Erik W. Hiep, Adjunct Professor of Human Resources and Organisational Behaviour at IE.



SEVEN HABITS OF MINDFULNESS

JAVIER CARRIL

A growing number of people are experiencing the benefits of mindfulness, a practice that fosters personal improvement while also optimizing performance and effectiveness in the professional sphere. Javier Carril, Professor in the Executive Coaching and Management Program at IE Business School, shares seven habits that will allow you to harness the transformative power of mindfulness in your personal and professional life.

—
Javier Carril, Professor in
the Executive Coaching and
Management Program at IE
Business School.

1

**ABANDON YOUR
MENTAL AUTOMATISMS**
AWAKEN A HIGHER LEVEL OF
CONCIOUSNESS.

2

**FOCUS ON
WHAT'S IMPORTANT**
AVOID DISTRACTIONS THAT DIVERT
YOU FROM YOUR GOALS AND HINDER
YOUR PERFORMANCE

3

LIVE IN THE PRESENT
THIS IS THE KEY TO HAPPINESS
AND HIGH PERFORMANCE.

4

EMBRACE PAIN
PAIN IS A PART OF LIFE. DON'T
AVOID IT OR FLEE FROM IT AND
YOU'LL MANAGE IT BETTER.

6

ACCEPT LIFE AS IT IS
THI DOESN'T MEAN PASSIVELY
RESIGNING YOURSELF TO YOUR FATE,
IT'S A PROACTIVE STANCE THAT
IMPLIES A PROFOUND INNER CHANGE.

7

**LEARN TO
RELATE YOURSELF**
IN A KINDER AND MORE
COMPASSIONATE WAY.

5

**DON'T BELIEVE YOUR MIND
OR YOUR THOUGHTS**
QUESTION THE TRUTH OF YOUR
THOUGHTS AND EMOTIONS: THE BRAIN'S
INTERPRETATION CAN
BE LESS RIGOROUS.

**GLOBAL AFFAIRS & LAW
FINANCE & CONTROL**

**DOES THE
LAWYER OF THE
21ST CENTURY
NEED TO BE THAT
DIFFERENT?**

JAVIER DE CENDRA



It is by now a cliché to suggest that the legal industry is undergoing a paradigm shift, that everyone involved in it needs to adapt to this change, and that anyone who fails to do so will suffer greatly. For instance, the 2018 *Report on the State of the Legal Market*—produced jointly by the Georgetown University Center for the Study of the Legal Profession and Thomson Reuters—draws a comparison between the faulty and/or insufficient responses of many law firms to this paradigm shift and the failure of the Maginot Line, a series of fortifications built by the France during World War II to protect the country from the expected German invasion. France was prepared for a protracted war of attrition, but Germany launched the *blitzkrieg* and conquered the country within six weeks.¹



Like France, many major law firms have failed to detect the paradigm shift and are therefore unprepared for it. But why? The reasons may have to do with various psychological biases:

- Sunk-cost fallacy: Organizations tend to stick to investments even if they cannot be recouped.
- Loss-aversion bias: People attach greater importance to a certain loss than to an uncertain win.
- Preference for completion: People have an aversion to leaving existing strategies unfinished.
- Pluralistic ignorance: The few who truly understand the situation are deterred from championing change for fear of alienating others.
- Personal identification with existing strategies: People feel that a change of course would harm reputations.

How might this apply specifically to law firms? Existing structures may be resistant to change and difficult to amend. Internal rules and procedures may generate perverse incentives to maintain the status quo in relation to hiring and promoting talented professionals, investing in research and development, and implementing strategies for business attraction and client retention.

Of course, a well-functioning market for legal services is essential for the correct functioning of the economy, so new players will step in to satisfy needs that are not adequately or sufficiently covered by law firms. These so-called “law companies” are growing very quickly indeed, thanks to new business models that combine better customer value propositions with new profit formulas, more value-adding resources, and superior processes.² With this approach, these companies cooperate with law firms—providing various services involving predictive analysis, automation of documents, cloud services, business-management software, etc.—while also competing against them in the market for legal services. Moreover, while law firms have

been adjusting their business models, many corporations have been beefing up their legal departments so as to internalize more and more legal work, with a view to generating more value for the company.

The growing competitiveness of the legal services market has also increased competition for professionals who understand the paradigm shift and are capable of finding new business opportunities within it.

1. <https://store.legal.thomsonreuters.com/law-products/ns/solutions/peer-monitor/report-on-the-state-of-the-legal-market-repository>

2. See Mark Cohen, “New Business Models—Not Technology—Will Transform the Legal Industry,” <https://legalmosaic.com/blog/>

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Javier de Cendra,
Dean of IE Law School.

What is a lawyer? The 7 key traits a lawyer must have today

The ideal lawyer has always been a trusted professional who uses a profound knowledge of people, the law, and organizations to provide advice and to represent clients in legal affairs, which can be delicate, complex, and sometimes deeply disturbing, both personally and professionally. In so doing, lawyers must always seek to reconcile their clients’ interests with the interests of society as a whole. These truths are eternal, but satisfying them in a specific place and time may require particular skills. In today’s highly competitive, fast-changing global and technological environment, I believe that lawyers must have seven key traits:

- A character molded in classic virtues such as prudence, fortitude, temperance, and justice.
- Profound knowledge of the law as it applies to complex, global, yet highly contextual tech-shaped situations.
- Deep appreciation for the nature and role of law in the (business) world and for its relation to other fields of human endeavor (usually encompassed under the term “humanities”).
- Good knowledge of technological solutions that improve lawyers’ key tasks.
- Familiarity with aspects of new and emerging business models that can better serve clients’ needs.
- An entrepreneurial spirit coupled with knowledge of techniques for innovating at scale.
- A constant desire to learn about the law in the wider context and a commitment to doing so in structured ways.

Being a successful lawyer has never been easy. Professionals who are smart, virtuous, hard-working, and committed to the law, their clients, and society will always be in high demand. To be a good lawyer, it has never been enough just to know the law, although the specific knowledge required may vary over time. Law schools can and must help lawyers adapt to the changing environment in order to help them succeed.



REASONS TO TAKE SHAKESPEARE OUT OF THE MORTGAGE SYSTEM

PEDRO GETE AND FRANCO ZECCHETTO

The mortgage system plays a key role in every economy. The European recourse model—which prevents defaulted borrowers from settling their debt by relinquishing ownership of the property—makes financial crises more frequent and hinders recovery. These effects are especially harmful when interest rates are low, as they have been since the last crisis.

In William Shakespeare's *The Merchant of Venice*, the merchant takes out a loan secured by a pound of his own flesh. This is the polar opposite of a non-recourse mortgage system, in which a borrower can settle his debt by handing over the keys to the property. In practice, the US mortgage system is predominantly non-recourse, while the European system is more Shakespearean: the borrower remains liable for the debt even after foreclosure of the property. In other words, the borrower does not have the option of "walking away" from a mortgage, because he would be liable for the debt regardless. Given the severity of the Great

Recession and the spate of foreclosures it triggered, there has been much debate about the relative merits of recourse and non-recourse mortgage systems. The arguments mainly boil down to "justice or equity." However, it is important to consider what a switch from recourse to non-recourse would mean for the European system in terms of macroeconomic efficiency.

Faster recovery in the United States

The United States, Ireland, and Spain had similar patterns before the recession—a housing boom and large external deficits—as well as in the early days of the crisis. In all three countries, housing prices and gross domestic

product initially fell by similar percentages and policy interest rates hit the zero lower bound. What is less well known is that these countries had very different dynamics of economic recovery. The US economy turned around much more quickly, thanks to a faster recovery of household consumption and the nature of the American mortgage system itself.

US households were able to reduce their mortgage debt burden more quickly because they had the option of handing the property over to the bank. This allowed them to increase their consumption, which had a positive knock-on effect for the entire economy, including banks. Besides providing debt relief for American households, the non-recourse mortgage

— The benefits of a non-recourse mortgage system become especially evident when the economy enters a negative feedback loop, rendering traditional monetary policy ineffective.

system also supported the economic growth of the country as a whole.

When the economy enters a negative feedback loop

Although it is clear that the US and European economies recovered at very different speeds, under normal circumstances a non-recourse mortgage system restricts access to credit and makes it more expensive to borrow money, especially for the riskiest households. This reduces the likelihood of a crisis, but it also drives down housing prices and home ownership rates.

The benefits of a non-recourse mortgage system become especially evident when the economy enters a negative feedback loop, rendering traditional monetary policy ineffective. Policy interest rates become trapped at zero, forcing central banks to use unconventional instruments whose efficacy and side effects are not well understood. This has been the reality for most of the world's economies since 2008-2009. The near future may hold a similar fate, since interest rates will still be very low when the next recession arrives. When the European Central Bank decides to lower interest rates, we may once again enter the negative feedback loop known as a liquidity trap.

Another drawback of a recourse economy is that banks have no incentive to internalize either the effects on housing prices or the macroeconomic effects of foreclosures. As amply documented in the academic literature,

foreclosures contribute to an excessive decrease in property values. In a recourse economy, if a bank has to auction off a property at a ridiculously low price, it does not suffer much harm because it can still pursue the borrower for the balance of the mortgage. The inability to walk away from a mortgage thus pushes down housing prices even further.

Europe could have grown faster

Given this situation, we must consider a key question: How much sooner would Europe have recovered from the recession if borrowers had been allowed to walk away from their mortgages? According to our research, the recovery gap between Europe and the United States would have been a whopping 30% smaller if the European mortgage system had been non-recourse.

In today's environment of low interest rates (which limits the options available to central banks) and highly indebted governments with little room for fiscal maneuvering, the macroeconomic arguments favor the introduction of non-recourse mortgages in Europe. Now is the time for politicians to start thinking about how to combat the next economic crisis. Let's take Shakespeare out of the mortgage system.

—
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GOOD GOVERNANCE AND AUDIT COMMITTEES' SOCIAL CAPITAL

NIEVES CARRERA, TASHFEEN SOHAIL AND SALVADOR CARMONA

Contact networks (social capital) can be beneficial in any professional activity. In the specific case of audit committee members, what sort of influence do contact networks have? Could the social capital of audit committee members have a negative impact on the quality of financial reporting?





The audit committee plays a fundamental role in the good governance of any organization. A company's ethics and transparency are perhaps the best indicators of its reputation. The composition—and, in particular, the experience—of a company's audit committee therefore plays a crucial role in ensuring efficient and reliable oversight of financial reporting processes. As various studies have demonstrated, the profile of an audit committee's members—including their social capital—can affect the quality of the company's financial reporting.

The social capital factor

Individuals generate social capital by interacting with other members of their social network. Social capital can be defined as the advantage created by a person's position within the structure of her social network. As previous studies have shown, social capital arises from the information-transmitting potential of an individual's networks and the links of dependence created through these trust-based relationships. The set of resources derived from a person's contacts and social relationships would theoretically be expected have a positive effect on that individual.

Empirical studies on corporate governance have mainly focused on the benefits derived from social networks. One such benefit is the positive effect that information transfer among audit committee members can potentially have on financial reporting quality. However, interaction with the members of one's social network can also have negative effects, suggesting a "dark side" of social capital that could potentially worsen the performance of board members in general and audit committee members in particular.

Ties that bind, ties that blind

Let us consider the case of audit committee members specifically. When these individuals are "cross-appointed"—i.e. when they sit on multiple committees at the same time—they develop connections with other directors in the same situation, and this can have a negative effect on their performance at each of the companies they serve. This effect can be attributed to a lower degree of decision-making autonomy and independence as well as the potential "contagion" effect of questionable accounting practices. From this perspective, an audit committee's social capital could have a negative impact on financial reporting quality.

Influential indicators

Social capital is not easy to measure. Drawing on the work of contemporary researchers, we can identify four main indicators:



DEGREE CENTRALITY

This indicator considers the number of connections that an individual has with other people in her network. An individual is said to be central if her ties make her visible to other people in the network. Thus, audit committee members with a high degree of centrality can gather information about accounting practices from a larger number of sources, thanks to their position within the network.



CONNECTIVITY

This indicator has to do with the quality of a person's connections. Specifically, it measures an individual's position within a network structure in terms of the quality—as opposed to the quantity—of his contacts. Like degree centrality, connectivity can influence the quality of the information that individuals obtain through their connections.



BROKERAGE

This indicator shows how often an individual acts as an intermediary within her network, thus providing an indirect measure of the power she enjoys as a consequence of her location in the network. The work of audit committee members can be affected by their brokerage position within the network.



STRONG TIES

This indicator measures the number of three-way relationships among individuals in the same network. Strong ties inculcate commitment and constitute a source of information, which in turn can affect an individual's attitudes, opinions, and decisions.

Using these indicators, we studied the effect of audit committees' social capital on financial reporting quality. To do this, we gathered data from a sample of listed companies in the United States. We examined the social networks of the sample companies' board members, analyzing four subgroups in particular: audit committee members, non-audit committee members, audit committee members designated as financial experts, and audit committee members not designated as

financial experts. The four indicators described above were calculated at the director level for each subgroup and later aggregated at the company level. Financial reporting quality was measured using accruals-based quality models (a method widely used in previous research). Our empirical analysis showed that the social capital of audit committee members does indeed have an effect on financial reporting quality. However, the same does not hold for non-audit committee members, whose social

Our findings suggest that the social capital of audit committee members has a negative influence on financial reporting quality.

capital does not appear to exert a significant influence on financial reporting quality. Specifically, our findings suggest that the social capital of audit committee members has a negative influence on financial reporting quality, supporting the hypothesis that social capital has a “dark side.”

When audit committee members with and without financial experience were analyzed separately, the results varied depending on the social capital indicator considered. For the degree centrality indicator, we observed a negative effect on reporting, but only in the case of audit committee members designated as financial experts. That is, when board members are cross-appointed—i.e. they serve on multiple committees—and have a larger number of connections, the quality of their performance appears to suffer. However, for the other indicators—connectivity,

brokerage, and strong ties—the negative relationship between social capital and financial reporting quality was found only for non-experts. In other words, the quality and power of an individual's contacts appear to exert an influence only in the case of audit committee members without financial experience. In conclusion, the divergence between the results for experts and non-experts for some indicators suggests that further reflection on social capital measures is warranted.

Implications for regulators

Regulators have long expressed concerns about cross-appointments at publicly traded companies. In Spain, the authors of the Olivencia Report argued that the cross-appointment of directors to the board of more than one company should be avoided. Our findings suggest that ties among audit committee members are especially

important. Specifically, both financial experts and their non-expert counterparts on the audit committee could be compromising the quality of their firm's financial reporting as a result of their links to other board members—a phenomenon that could be called “cross-appointment of audit committee members.”

Our findings underscore the need for rules that limit financial experts' ability to hold multiple executive posts and suggest that the real contribution of non-financial experts on audit committees should be assessed in greater depth.

—
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