Introduction

For businesses to remain successful in these still uncertain times, where existing management philosophies and attitudes are continually being challenged, it is essential that they remain abreast of the latest developments in management thinking.

It is with great pleasure then that we present here the third edition of RSM Insight. The purpose of the publication is to bring to the attention of a wider business audience just a small sample of some of the top quality research conducted by RSM that has specific relevance for executives and organisations facing those challenges.

The topics addressed in this issue are: new business development projects and their success rates; executive leadership in times of crisis; marketing and customer loyalty, and viral marketing online. We are certain that these subjects will be of great interest and sincerely hope that you find the research insights presented here to be of value.

Best wishes,

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Leadership in times of crisis:
New demands for leaders

by Rob van Tulder

The economic crisis shows remarkable parallels to a personal crisis in its characteristics and consequences. If that is the case, does this imply that solutions should also run parallel? For sure, such crises provide corporate leaders with many new demands.

According to psychologists a ‘midlife crisis’ can be recognised by creeping feelings of dissatisfaction and ineffectiveness, a lacking in creativity and enthusiasm, coupled with boredom and a confused search for adventure and inspiration. Typically it is something that comes as a complete surprise to the individual, although may be long anticipated by family, friends and co-workers alike.

Personal recession can become a full-blown crisis if feelings of stress lead to burnout. Writer Joseph Campbell characterised it thus: “Midlife is when you reach the top of the ladder and find that it was against the wrong wall.”

Unfortunately, a real midlife crisis is an existential one for which no quick fixes are possible. The confusion can only be solved by sense-making, the process by which we are able to give meaning to our experiences. At such times many people often consult life coaches.

The same is essentially true for the present economic crisis; identified as a systems crisis for which new approaches to management and regulation are necessary. According to economist Joseph Stiglitz, many independent observers saw the crisis coming. The only question was ‘when?’ Paradoxically, one of the contributing factors to the crisis has been the very search for adventure and ‘risk’ undertaken by corporate leaders – combined with a decreased ability and willingness of governments to regulate speculative behaviour.

In this sense, the psychological cause for the economic turmoil can be attributed to a collective midlife crisis of top executives. The economic crisis created a sense of uncertainty, triggered by its complexity. Some managers are still in a state of denial, but on the whole most societies recognise that they face a challenge for which ‘business as usual’ no longer suffices.

Consequently, the lack of sense-making and vision at an organisational level is strongly felt. A substantial number of public companies in the Netherlands do not have an official mission statement. Large American companies such as General Electric have denied the relevance of a detailed mission statement, other than an expressed desire to ‘be number one’ in each of their market segments.

In times of crisis this attitude is
The biggest challenge in times of organisational crisis is the lack of openness towards critical reflection...

Also, more focused corporations find it simpler to stick to their core competencies and even increase R&D investments during times of crisis, which gives them a head start in the reconstruction period. Companies without a clear mission improvise and go for short-term solutions – the sale of valuable assets, perhaps – which deprives them of longer-term directions for sustained recovery.

Sense-making, therefore, becomes a condition for organisational as well as personal ‘growth’. Nowadays this

CEO of General Electric and Fortune magazine’s ‘Manager of the Century’, who had refuted its relevance years before. Welch qualifies the ambition of high share prices as a ‘dump idea’.

The biggest challenge in times of organisational crisis is the lack of openness towards critical reflection, leading to herding behaviour. This is the phenomenon also known as ‘group think’. The involvement of outsiders, such as executive coaches, can help overcoming these problems in which the challenge is one of double sense-making: to be successful it must be tackled at an individual as well as an organisational level.

**Midlife crisis and economic crisis: converging phenomena**

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* source www.midlifecrisiscoaching.com/ [April 2009]
Leadership in times of crisis:
New demands for leaders (continued)

by Rob van Tulder

3. Honest communication supported by, for instance, Life Styles Inventory techniques should help determine whether real and perceived (by employees) leadership styles are one and the same.

4. Brainstorming and dreaming: in most organisations there is a sizable gap between what people want and what they do, so dreaming about optimal solutions helps in triggering change paths.

5. Sense-making: redefinition of organisational and personal mission creates focus in the brainstorming process.

6. Self-acceptance and deepening of organisational identity: without this, ambitions might unrealistically be set too low or too high.

7. Implementation strategy: make your ambitions simple, measurable, achievable, realistic and time-bound.

8. Walk the talk: but with integrity and an open ear for feedback

9. Check for balance with other activities: work-life balance; psychic-physical; internal-external stakeholders.

10. Personal and organisational change trajectories along this sequence create what is sometimes referred to as ‘stability under dynamic change’. This is particularly appropriate for organisations in crisis.

“Companies without a clear mission improvise and go for short-term solutions, which deprives them of longer-term directions for sustained recovery.”

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This article is based on the findings of a research project that is the result of extensive cooperation between KPMG and RSM. It is part of a longer-term project on skills development for leaders in complex organisational challenges, such as cross sector partnerships. One project has resulted in a book: ‘Leadership and Coaching in Times of Crisis’ (www.erim.nl/scope). This deals with the conditions under which executive coaching is useful and found to offer a substantial return on investment for leaders. The research was based on a representative survey amongst 163 executives in the Netherlands, partly formatted as a replication of a 2001 study in order to facilitate comparison over time.
Why innovative business development projects fail

by Henk W. Volberda, Frans A. J. Van Den Bosch and J. Henri Burgers

In today’s fast-paced, knowledge-based environments, companies need to develop new business opportunities continuously in order to take advantage of technological and market changes.

However, the managerial and organisational structures of most firms are primarily structured towards exploitation activities such as the refinement of products and processes. As these structures do not adequately support the requirements for exploring new business opportunities to maximum effect, managers therefore increasingly use projects to create new revenue channels.

A key aspect of New Business Development (NBD) projects is the management of knowledge. Radical innovations require new technological knowledge and new market knowledge while incremental innovations use and leverage existing technological and market knowledge. Based on our research¹, we find that project success is more likely when the balance between technological knowledge and market knowledge is properly addressed.

We had the opportunity to explore in detail the success and failure rates of NBD’s within a large, multinational corporation - the domestic appliances and personal care division of Koninklijke Philips Electronics. This is the division that developed the Senseo coffee brewing system with Sara Lee, and it has been one of their most successful projects.

However, whilst this was a clear triumph, other projects were quite the opposite. The project failure rate was a genuine and troublesome problem for the organisation. In return for unprecedented access to their projects we sought to address a question of great importance to Philips: how can the company improve the success rate of its innovation projects?

We knew from the outset that the problem did not lie with technological knowledge, as the company is unquestionably very advanced. Our analysis, based on detailed study of eight NBD’s, showed that the key cause for concern was where market knowledge was new to the firm (Fig 1).

We learned that the business
strategy of Philips, a highly skilled engineering company, revolved around a belief that as soon as a product had been developed and tested, it should be launched. This showed us that the company seriously underestimated the necessity and value of developing market knowledge before pushing a product onto the market.

Many project managers reinforced this view. They complained that whilst support was given for developing new products technologically, as soon as an NBD project neared completion it was expected to be profitable within two years. Why was this? Because these projects fell under the aegis of business unit managers, and their ultimate remit is to turn a profit.

As Fig 1 shows, the failure rate of NBD’s is at its highest when the market knowledge is new to the firm. Success for the organisation came more readily when the radical innovation needed only to be applied to the technical knowledge, and existing, trusted marketing approaches, distribution channels and business model could be used.

The caveat here is that radical innovation should not be restricted to the development of the product alone. It should just as importantly be about innovation in market knowledge. Whilst this applied to Philips, it is also a valuable lesson applicable to every company pinning its commercial hopes on NBD project success.

For instance, the Senseo product was a radical innovation because the company had to develop a new business model in which profit is not made through sales of the product, the coffee maker, but via sales of the coffee pads used by the machine.

So, the company had to develop with its alliance partner, in this case Sara Lee, a new business and profit sharing model. Whilst the product was indeed innovative, it was the marketing approach that was radically innovative.

If companies are allocating valuable time and resources on developing new products, and placing these into new markets, it makes sense that companies should also experiment, develop and innovate within these new markets. The goal should be to find the best ways to position, market, sell and distribute that product. The development of the market is just as crucial to success as the development of the product, and so a constraint of two years, as was the case with Philips, proves to be unreasonable.
Project autonomy is another important factor in NBD success. If innovation is required in market knowledge then the project should be given greater autonomy. Ideally it will be separated from the main business line. The NBD project should have its own resources, for example, fully dedicated marketing and R&D teams. Of course, the autonomy is not permanent. The idea being that the NBD project becomes a money-spinner and as such is integrated back into the fold.

As a direct result of our case studies, Philips reassessed the function and purpose of new business development managers and units. Now, as soon as they believe that radical new innovations can be developed, they are hived off from the main business unit, an autonomous project is established, and without the previous constraints. With the newly invigorated approach in place, Philips has successfully increased sales turnover from innovative new business development projects.

It is worth pointing out that the failed Philips NBD projects were given some autonomy, but only for the evolution of the technical knowledge needed to create the product. That autonomy should have extended to the development of innovations in new market knowledge. In addition, more time should have been allocated to these NBD projects, with the completion criteria being set after market introduction and not before.

A knock-on effect within Philips, a consequence of NBD project failure, was that profitability decreased and with it so did the innovation rate. When business unit managers only focus on short-term targets, the so-called key performance indicators, then they are not willing to invest in innovation projects that may also succeed but over a longer period of time than the existing profit-motivated structures allow. To encourage this innovation from within, and to increase the ratio of successful NBD projects, organisations should invest in suitably structured incentives that consider the longer view.

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For almost every company the retention of customers and the creation of customer loyalty is a huge driver of profits. If an organisation were able to increase customer retention by just 1%, such an improvement would have a significant impact on profitability.

But what are the underlying factors of loyalty? Significant research has been conducted over the years on this very subject, and at a basic human level we’re often told that in personal relationships ‘women are more loyal than men’. At a psychological level we’re also told that women are more interdependent as people whereas men are considered to be more independent.

Both of these theories would lead us to believe that, generally speaking, women are more loyal than men. There is another theory though, which interdependent with individuals, and men with groups.

At first glance this is far removed from the world of business. However, they are linked, inextricably, and what we’ve sought to do is determine what drives customer loyalty in men versus women. The questions we posed were: Are men less loyal generally as customers? Or, if women are more loyal to individuals - for example, to individual sales people and service providers - then are men more loyal to groups and group-like entities such as retail chains?

“Our findings show that organisations ought to reconsider the marketing strategies used in developing relationships with their customers.”

states that everyone, regardless of gender, has a strong need to belong. But, what they need to belong to is different. Women, we find, are Apart from providing further understanding of what it is that makes customers tick, the implications revealed by our findings are quite significant for companies, specifically in determining where the balance of power lies in customer relationships.

What we found is that men are loyal to a company – an entity. Take a high street bank, for example. For men, it doesn’t matter all that much who the person is that provides the service: the relationship is with the bank. However, for women the relationship is not with the organisation, but centres instead on individual service providers.

The customer service representative at the bank, a specific hairdresser, doctor, and so on, are to what female customers are loyal. Look at that from the organisation’s point of view and suddenly the power balance of the customer relationship is very firmly in the hands of the individual employee.

So powerful can this relationship be that if the individual service provider leaves your organisation, then your customer may leave as well. For employers, when that individual comes to you and says they would like a pay rise, or tells you that they are leaving to work elsewhere, there’s much more at stake for you than just filling a vacancy, especially if they are in a work environment where they have many women customers.

To expound further: you will rarely come across a menswear shop run by just one or two people. However, it’s very common to find such boutiques
for women. Women tend to have close customer relationships with their hairdresser – men typically do not. They might be loyal to a specific establishment, but usually not to the hairdresser.

To reach our conclusions we conducted five experiments of varying complexity. In the simplest scenarios we presented people with options that would test their loyalty. For example: you need to buy a birthday cake for work colleagues. You can buy it from a nearby bakery or cycle 10 minutes, through the rain, to a shop run by an acquaintance from school. Which would you choose? The same scenario was also set, but with three acquaintances at the bakery, not one.

Women, our results showed, were much more likely to cycle through the rain – if there was one person at the bakery that they knew, but not if there were three. The results were the opposite for men – they would make the extra effort for a group, but not a single person.

A second study saw us conducting surveys on the streets of a city. We asked people specific questions about their relationships with individual service providers and groups that provided services: for example, ‘how loyal are you to your dentist?’ versus ‘how loyal are you to your dental practice?’

It became clear, as it did with our other studies, that women are more loyal to the individual than to the group, expressing the certainty that they would terminate their relationship with the organisation if the individual service provider left. Once more, exactly the opposite results came from the men who expressed much more commitment to the organisation than they did to the individual.

For organisations, our findings mean that they ought to reconsider the marketing strategies used in developing relationships with their customers and adapt them along gender-loyalty lines.

Marketers should make sure to treat women as individuals and encourage these one-on-one relationships. However, organisations also need to understand that the balance of power in the customer-client relationship will then lie with the individual providing the service.

When reflecting these gender differences in advertising, for men organisations should look to portray and reinforce the group aspects and the status that comes from association or participation with the service.

For women, the message needs to express the individuality aspects and show that as individuals they are valued. Being thought of as just another number or being seen as another faceless person in a crowd is not what women want. Instead, they want you to make them feel uniquely special.

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Viral marketing can be a safe bet
by Ralf van der Lans, Gerrit van Bruggen, Jehoshua Eliashberg & Berend Wierenga.

Today, from a business and marketing perspective, vast numbers of customers and potential customers interact with one another through electronic and online channels that range from emails to social media hubs such as Facebook, MySpace and Twitter.

Understanding the nature of these communications networks, and their value in marketing, is increasingly important for organisations. This is especially so as marketers have less control over these channels than they do over the traditional mass media of TV, newspapers and magazines.

As part of their overall marketing strategies, many major companies such as Microsoft, Philips, Sony, Ford, BMW, and Procter and Gamble, have used these electronic channels for viral marketing purposes, some to better effect than others.

In viral marketing campaigns, organisations develop an online marketing message, typically in the form of an email. This is seeded to a contact database and is designed to stimulate customers or potential customers to a) interact with it, and b) forward it on to members of their social network with the purpose that they might do the same, and so on.

Because word-of-mouth communiqués from friends and peer networks have more impact than those from organisations, and information spreads rapidly over the internet, viral marketing is a powerful communications tool that can reach many customers and potential customers in very short periods of time.

Furthermore, the nature of the internet allows marketers to use many different forms of communication, such as videos, games and interactive websites, in their viral campaigns. Whilst the term viral marketing may suggest that information spreads automatically, marketers need to actively manage the viral process in order to facilitate and encourage the spread of information.

Being able to utilise such communications channels effectively for marketing purposes offers many
advantages for organisations. One significant and immediate benefit is that marketing budgets may be sizeably reduced: organisations will be able to lessen their dependence on expensive TV and mainstream media advertising.

However, viral marketing is not as simple as it might sound and just sending out masses of emails is not going to bring success. There are many considerations and factors to be planned for.

Controlling how, where and when your marketing message is delivered becomes much more difficult as the population is entirely responsible for its spread. This is why, as researchers, we sought to develop a mathematical model, one that could predict very early on in the life of a viral campaign how it would spread, and thus enable us to forecast its effectiveness.

Creating a viral model
In looking to develop a model, we collaborated with a Netherlands marketing agency specialised in online and viral campaigns (and set up by an alumnus of RSM). They had gathered banks of raw data from previous campaigns, but did not have sufficiently sophisticated analytical tools to predict the viral effect of future peer-to-peer marketing communications. To approach the task of analysing the data and creating a predictive model, the first step is to assess existing models.

This included exploring epidemiological models that use the branching process to describe the spread of real-world viruses. These we applied to electronic viruses, as there are very close parallels between what happens to a viral infection in nature and how electronic forms behave. Although these models proved promising, they could not cover all scenarios and needed to be adapted.

A key difference between the spread of an electronic virus and a biological one is that with the latter the recipient may not know that they are infected or are infecting others. With viral messages people consciously choose to be ‘infected’ by participating in an online game or by viewing a specified website promotion. Participants also deliberately choose whom to pass on a viral message to.

In our research, when working to develop the model, the purpose of the marketing campaign was to increase awareness of specific financial products for a bank. The campaign targeted younger adults at the beginning of the customer lifecycle. The viral aspect of the campaign consisted of an online game, which the target audience was encouraged to play. Through participation players were informed of the product.

Those who did well in the game were invited to visit the bricks and mortar outlets of the bank where more information would be provided and the opportunity to sign them up for products or services existed. Viral marketing thus played a critical part in a much bigger marketing campaign in which the primary goal was to create prospects that were highly likely to become new customers.

Predicting success
What we learned from creating the model and applying it through this real campaign is that, in comparison with existing models, ours is very accurate. Just seven days into a six-week campaign, which is very early, it accurately forecast how response rates
would develop overall, and thus the expected success. Because of the volume of individual-level data available we were also able to use our model to observe stable patterns in the early stages of the campaign. These allowed us to anticipate results such as how many people would open the initial email; how many would visit the associated website and forward the email on to their network; how many contacts they would forward the email on to, and how likely the subsequent tiers of contacts would respond to the same stimuli.

Through the application of our modelling research in their own marketing efforts, organisations can now predict the progress and effectiveness of campaigns that are spread by electronic word-of-mouth. As we have developed a certain structure, marketers can also use our model to identify critical parameters, analyse the relevant data, and make modifications to improve interaction rates and overall effectiveness of campaigns.

Because viral marketing is still a relatively new concept, marketers sometimes feel that using it is bit of a gamble: it’s going to be hit-and-miss. However, what our research and the statistical model we have developed clearly shows is that it is a wholly manageable, quantifiable and thus valuable marketing process. Organisations therefore no longer have to consider viral campaigns as being the product of some kind of marketing black magic.

“Organisations can now predict the progress and effectiveness of campaigns that are spread by electronic word-of-mouth.”

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