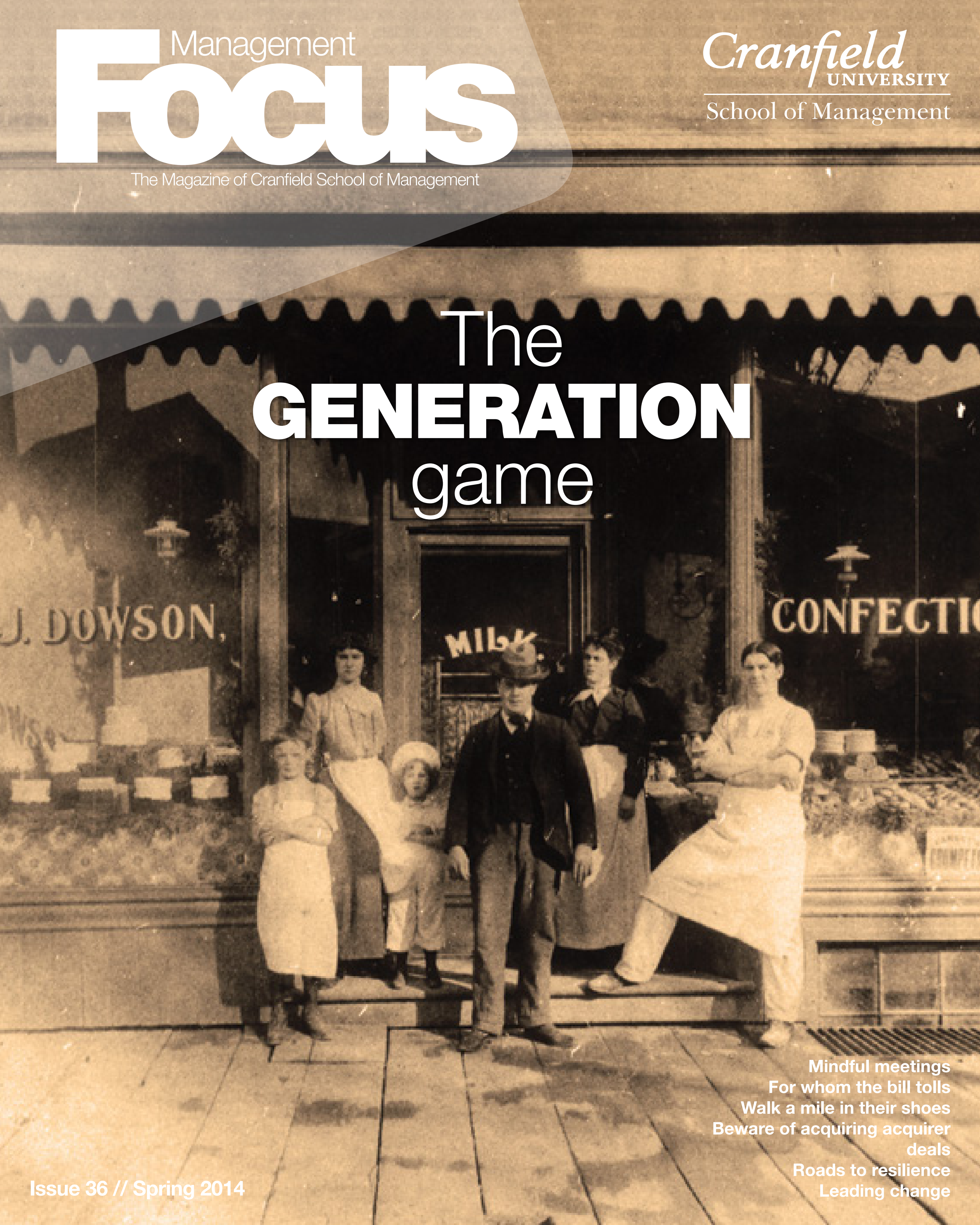
Management
Focus
The Magazine of Cranfield School of Management

Cranfield UNIVERSITY
School of Management

The GENERATION game



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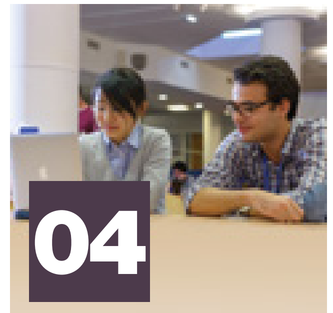

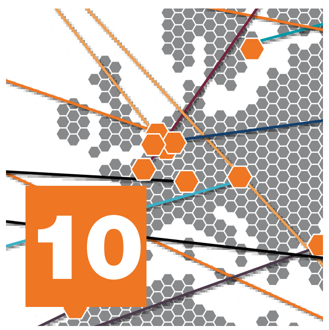

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EDITORIAL

"Cranfield's closeness to business has been at the heart of our DNA for almost five decades."

It is an exciting and challenging time for me to lead the School. As the world continues to recover from the longest and deepest recession in living memory and as all of us look to the future, the only thing we can be sure of is that tomorrow will be different from today!

The business school community has a central role to play in shaping the solutions to the economic challenges facing the world. Cranfield's closeness to business has been at the heart of our DNA for almost five decades and I am proud that today our links with business are deeper than ever. We continue to have direct engagement with organisations across the world through our degree programmes, executive education activities, research clubs and consultancy work.

It is our connections with the corporate world and the experience of our faculty that enables us to provide the leadership and management development support necessary for individuals and businesses to be competitive on the global stage and the capability to generate research that delivers academic and practical impact.

Through our Business Growth Programme (which has been running for over 25 years) we have helped over 1,500 owner-managers achieve their business and personal ambitions. Our lead article by Dr Stephanie Hussels and David Molian looks at the pivotal role family businesses play in economies across the world.

In this issue there is also an interview with alumnus Mark Russell who, after a successful career in the corporate sector, was asked to join the UK Government to advise on state-owned businesses. He talks about the float of Royal Mail and why it was the right decision. Mark's story is a great example of how the barriers between the Civil Service and the private sector can be broken down in order to strengthen skills and boost organisational performance.

I hope you enjoy the articles in this issue of Management Focus.

Professor Joe Nellis
Director, Cranfield School of Management

Follow us:

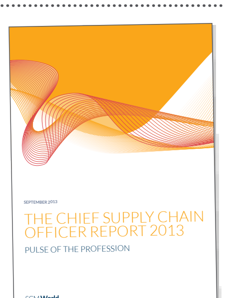
SCHOOL NEWS

Cranfield grows its masters portfolio

The School has launched two new specialist masters programmes that will start in September 2014.

Full-time MSc in Investment Management
This new programme is designed for those who want to launch a career in the highly competitive investment industry. Course Director, Professor Sunil Poshakwale said: "Students will learn the skills and knowledge needed to succeed in the investment industry and will also have the opportunity to work on an industry sponsored project in the final term of the programme. They will learn about doing business in the world's major financial hubs from experts who have worked across the globe."

Full-time MSc in Management and Corporate Sustainability
This programme will offer a range of general management modules in conjunction with specialist modules on corporate sustainability. Course Director, Dr Andrew Angus said: "Today, organisations that want to achieve long-term success must consider what is known as the triple bottom line: economic, environmental and social performance. Our new programme examines the social, ethical and environmental issues faced by organisations and will equip managers with the theories, tools and techniques to embed sustainability thinking into their organisations."



Leading provider of supply chain talent

Global supply chain professionals have ranked Cranfield among the world's top universities for producing supply chain talent. In the latest SCM World Chief Supply Chain Officer Survey, Cranfield is ranked 7th in the world and 1st in Europe among universities that teach supply chain management.

The research conducted by SCM World asked senior global supply chain and procurement professionals to list the top three schools they considered to be leading providers of talented supply chain management graduates.

Awards evening

The Cranfield School of Management Awards Evening took place in February at the Royal Society in London. Over 140 alumni and faculty came together to celebrate the achievements of this year's award winners.

The 2014 prizewinners included:

1. **Entrepreneur Alumni of the Year:** Go Ape
   Tristram Mayhew (BGP 2006), Chief Gorilla
   Jerome Mayhew (BGP 2010), Managing Director
   Rebecca Mayhew (BGP 2010), Communications Director
   Will Galbraith (BGP 2006), Operations Director
2. **Alumni Service Award:** Alex Chapman (MBA 1988), Co-Founder, Totally Optimized Projects
3. **Alumni Service Award:** David Thompson (MBA 1969), Alumni Volunteer, New Zealand
4. **Excellence in Achievement for Recent Graduates:** Andy Baker (MBA 2005), CEO, G4S Africa
5. **Cranfield Leadership Prize:** John Lacken (MBA 2013)
6. **Henry Ford II Scholar Award:** Jason Yiu (MBA 2013), Analyst, IMS Health
7. **Odgers Prize:** Emma Buckland (MBA 2013), EMEA Operations Director, FICO
8. **The Spirit of Cranfield Prize:** Andrew Harrison-Chinn (MBA 2013) and Emma Buckland (MBA 2013).

Top marks

The School has been ranked 10th in the Forbes ranking of the best business schools in the world, outside of the US. Every two years, Forbes ranks the world's business schools based on their return on investment (ROI).

Forbes

New iTunes U course

The Centre for Business Performance has launched a new course on iTunes U which provides an introduction to Performance Measurement, one of the crucial elements for running a business. The course introduces the principles and concepts of measuring business performance and gives practical insights into how performance measurement can be used in an organisation.

RESEARCH

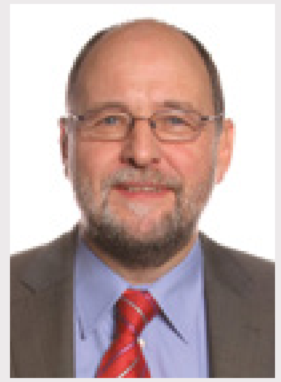
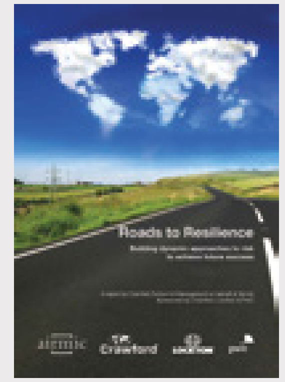
How to avoid a crisis

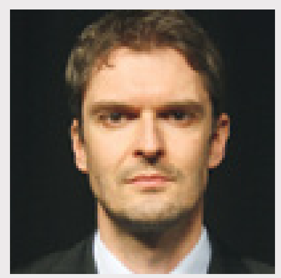
Companies that create a culture of resilience throughout their organisation can avoid potential crisis and are likely to be more successful in the long term, according to new research by Cranfield and Airmic, the association for risk management.

In the 'Roads to Resilience' report, the Cranfield authors urge boards and business leaders to challenge their current attitudes towards risk management and recognise that it should be a strategic priority and not just an operational or compliance issue.

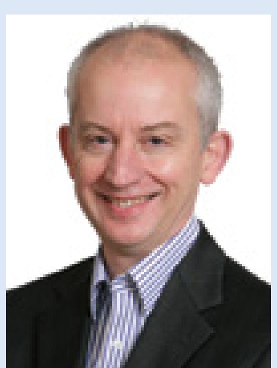
Commenting on the findings, report co-author Professor Keith Goffin said: "All industries are now facing unprecedented levels of risk that have real potential for harming their reputations and balance sheets. By bringing together the insights and experiences of those who have succeeded, this report challenges businesses to take the necessary actions to achieve resilience."

Read more about this research in an article by the report's authors Professor Keith Goffin (pictured top left), Dr Elmar Kutsch (bottom left) and Professor Marek Szwejczewski (bottom right) on page 26.




Review of the UK motorsport industry



Professor Mark Jenkins played a key role in a recent study commissioned by the Motorsport Industry Association (MIA), which revealed that the motorsport sector achieved sales of £9 billion in 2012, making it one of the most crucial contributors to the UK economy.

The study, which was supported by UK Trade and Investment (UKTI) and the Department for Business Innovation and Skills (BIS), revealed that there are now 4,300 businesses in the UK that owe their existence to motorsport, accounting for nearly 41,000 jobs.

Professor Mark Jenkins commented: "This study underlines that the UK is a global leader in this specialist area. It has demonstrated strong growth since 2009, and provides a unique capability that is adding value in areas such as low carbon technologies and sectors such as automotive, aerospace and defence."

Business Minister Michael Fallon said: "Our motorsport industry represents some of the best of British talent and ingenuity and it is imperative that we provide the right conditions so it continues to thrive. That is why we are investing £1 billion jointly with industry to ensure companies across the automotive sector have the support they need to develop the technologies of the future."

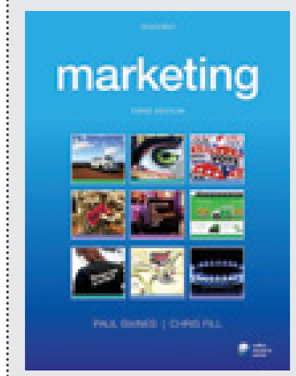
UK marketers are overlooking growth markets

UK marketing leaders are being left behind when it comes to expanding into new markets, according to Cranfield's annual marketing leaders' survey. The 2014 results revealed a lack of focus among UK marketers on innovation and rapidly growing economies.

Dr Stan Maklan, Director of the Marketing Directors Programme at Cranfield said: "Across the marketing profession there is great emphasis being placed on new media and technology. I am concerned that marketing's framework has become overly media centric, particularly in the UK, where we are seeing a lack of focus from the marketing profession on expanding in the BRIC and 'Next 11' economies and breakthrough innovations."

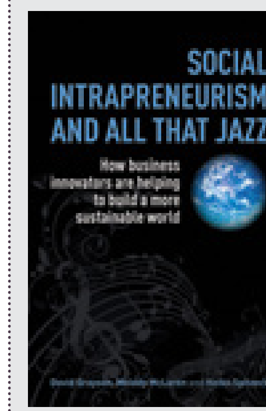
BOOKS

Real-world marketing



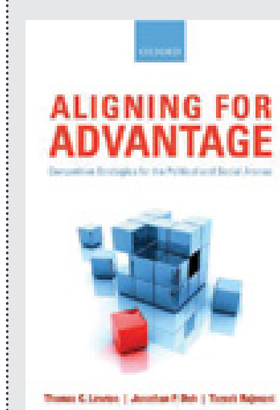
Professor Paul Baines' book *Marketing* (Third Edition) includes a CD of video interviews with marketers from well-known organisations including Orange, Virgin Media and Oxfam who discuss how marketing problems are approached and solved in the real world. The book also explores the latest developments in digital marketing and social media.

The social intrapreneur



Professor David Grayson's latest book *Social Intrapreneurism and All That Jazz* applies the metaphors of jazz to reveal how social intrapreneurs are harnessing the power of large companies to address societal problems. The book identifies the mind-sets and skills that have helped social intrapreneurs to be successful in changing business for the better.

Aligning for advantage



Dr Tazeeb Rajwani's book *Aligning for Advantage: Competitive Strategies for the Political and Social Arenas* explores how to take a strategic management approach when engaging with political, regulatory and social arenas and interests. It includes frameworks on how to design and implement aligned strategies in a climate of complexity and uncertainty.

From selling to co-creating

Dr Javier Marcos' book *From Selling to Co-Creating* identifies the current and future trends in sales and explores ways that sales forces can engage with their customers at a strategic level to develop new, innovative products and services to stay ahead of the competition. The book provides frameworks and tools for transforming and designing future-proof sales organisations.

MINDFUL meetings

by **Dr Andrey Pavlov** and **Dr Jutta Tobias** from the Cranfield Centre for Business Performance

Most managers don't like meetings. They say they are boring, go on too long and often end without important decisions being made.

However, this needn't be the case. We recently carried out a study of meetings which found that they can actually be one of the most powerful tools managers have.

There is a catch though - it relies on people getting into a frame of mind that closely resembles the state of mindfulness so they can see things clearly and therefore make better decisions.

Mindfulness techniques enable people to be aware of the present moment without reacting too quickly to information. This allows new perspectives and innovative ways of doing things to be explored before making a decision.

At its core, mindfulness is 'engaged awareness'. Our research found that when the chair of a meeting leads everyone into a 'mindful space', people engage in a more effective way. Everyone's minds may still be busy but in an effective meeting, their attention is focused on specific priorities rather than on everything inside their head. By the chair taking responsibility for structuring and leading the meeting, everyone has the energy needed to focus and be aware of all that is going on throughout the meeting, observing the present moment in a non-judgmental and purposeful way.

Our study identified ten steps that a chairperson should follow to increase the likelihood of everyone in their meeting entering a 'mindful space' and engaging in an effective way.

1. Encourage openness

Those at the meeting need to feel they can speak openly without worrying about the repercussions of what they say. A safe environment can be established by banning personal criticism and encouraging people to speak up.

2. Establish trust

An open atmosphere will also evolve if everyone at the meeting knows and trusts each other, as individuals will then share information and views more freely. This would not be the case if someone turns up at the meeting who has not been invited or is not expected to be there, which is why it is important to ask them to leave if that happens.

3. Ensure physical comfort

Research shows that all thoughts and emotions arise first as physical sensations which are interpreted by people as feelings which in turn influence their thoughts and decisions. It is therefore critical that those present are physically comfortable.

4. Ensure diversity of views

Inadequate diversity creates the danger of 'groupthink' - the belief among the group who are meeting that they and their decisions are invincible. To avoid this, ensure that those attending the meeting cover a range of backgrounds, perspectives and functions.

5. Allow expression of emotions

Emotions are an integral part of people's decision making, and mindfulness cannot emerge when emotions are explicitly or implicitly banned. It must be agreed upfront that reasonable 'venting' is okay and emotions are allowed.

6. Meet face-to-face

Personal contact is a powerful anchor which fosters commitment and a sense of ownership. Try to avoid teleconferencing and encourage people to speak directly to each other in person.

7. Respect people's limited attention span

Attention is a key resource for mindful decision making and it is limited. People are more likely to stay focused and fully engaged in meetings when they are kept brief and varied in format, with breaks and refreshments when needed.

8. Maintain personal focus

As the chairperson, you are the focus of everyone else's attention. What you say or do has an enormous impact on the attention and mindfulness of those around you. Therefore, you need to maintain personal presence, stay for the full length of the meeting and clarify the structure of the meeting when needed.

9. Allow new ideas and priorities to emerge

Mindfulness thrives on the present moment. Sticking rigidly to how the company has viewed business issues in the past takes attention away from what emerges 'there and then' in the meeting. You must stay involved in discussions as they unfold and avoid resisting the emergence of new priorities. When focused on what is required 'right here, right now', the relevant information is prompted and incorporated and the most effective and actionable decisions are made.

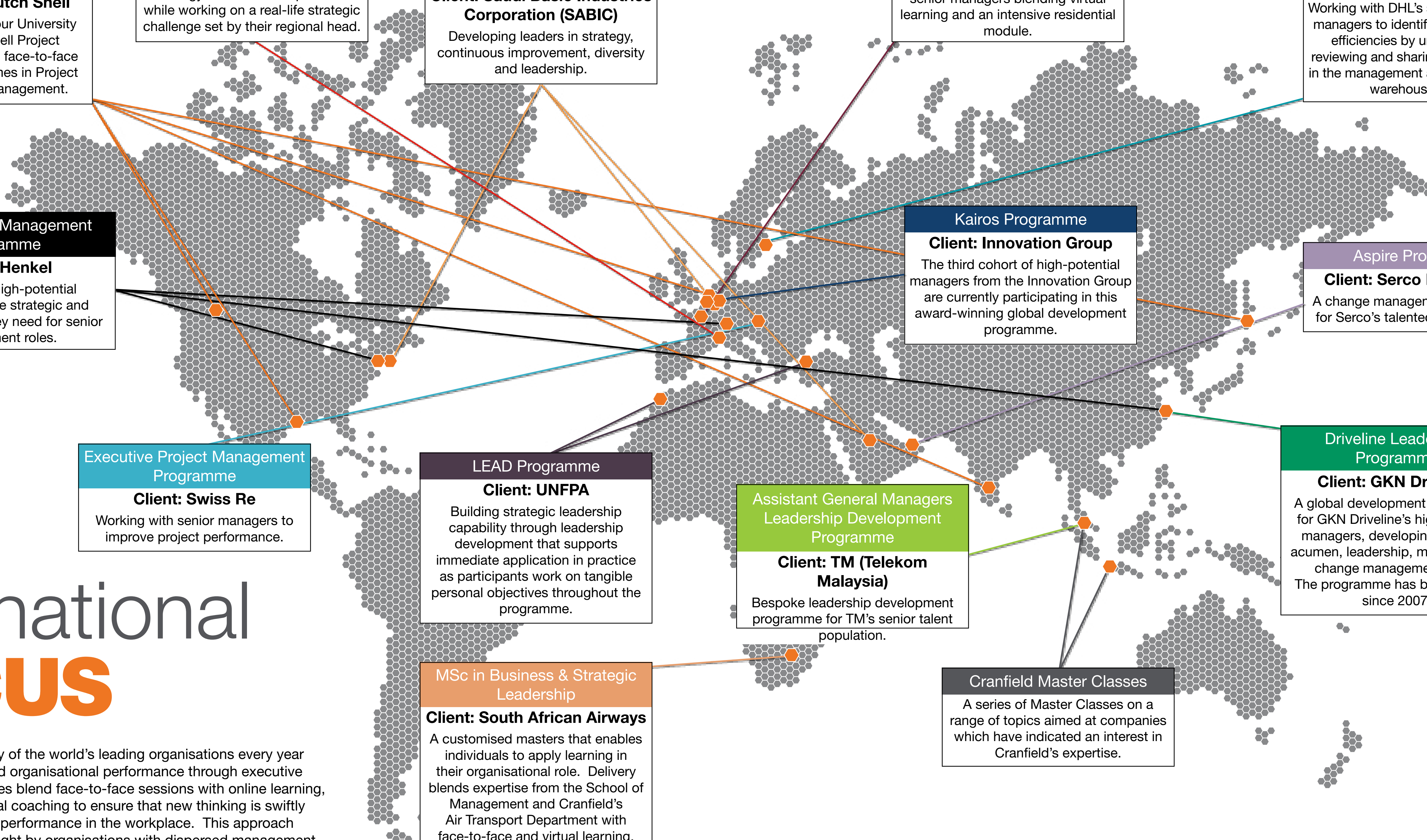
10. Shape the structure of the meeting

It is important for the person leading the meeting to shape the structure and purpose of the meeting as it unfolds; and stay alert throughout the meeting to keep it on track. This enables everyone else to focus on the present moment.

Although these ten points may seem obvious, you would be surprised at how few meeting chairs actually take them into account. Incorporating even a few of these suggestions will lead to more effective meetings. However, when implemented as a complete set, these actions will help everyone at the meeting to enter the 'mindful space' where old habits give way to new and effective decisions being made. MF

International
FOCUS

Cranfield works with many of the world's leading organisations every year to transform individual and organisational performance through executive development. Programmes blend face-to-face sessions with online learning, project work and individual coaching to ensure that new thinking is swiftly transferred into improved performance in the workplace. This approach provides the flexibility sought by organisations with dispersed management populations, often operating in virtual teams across multiple time zones. Here are just a few of our international in-company programmes that have run in the last six months.



Shell Project Academy
Client: Royal Dutch Shell

Cranfield is one of four University partners in the Shell Project Academy - providing face-to-face and online programmes in Project and Programme Management.

Leadership Programme
Client: Kuehne & Nagel

A 5-day programme during which regional cohorts enhance their strategy and finance capabilities while working on a real-life strategic challenge set by their regional head.

Personal Leadership Programme
Client: Saudi Basic Industries Corporation (SABIC)

Developing leaders in strategy, continuous improvement, diversity and leadership.

Business Leadership for Upstream
Client: TOTAL

A personal and business leadership programme for Total's high-potential senior managers blending virtual learning and an intensive residential module.

Effective Warehouse Practices
Client: DHL

Working with DHL's senior warehouse managers to identify and implement efficiencies by understanding, reviewing and sharing best practices in the management and operations of warehouse sites.

International Management Programme
Client: Henkel

Developing high-potential managers in the strategic and financial skills they need for senior management roles.

Kairos Programme
Client: Innovation Group

The third cohort of high-potential managers from the Innovation Group are currently participating in this award-winning global development programme.

Aspire Programme
Client: Serco Middle East

A change management programme for Serco's talented future leaders.

Executive Project Management Programme
Client: Swiss Re

Working with senior managers to improve project performance.

LEAD Programme
Client: UNFPA

Building strategic leadership capability through leadership development that supports immediate application in practice as participants work on tangible personal objectives throughout the programme.

Assistant General Managers Leadership Development Programme
Client: TM (Telekom Malaysia)

Bespoke leadership development programme for TM's senior talent population.

Driveline Leadership Programme
Client: GKN Driveline

A global development programme for GKN Driveline's high potential managers, developing business acumen, leadership, marketing and change management skills. The programme has been running since 2007.

MSc in Business & Strategic Leadership
Client: South African Airways

A customised masters that enables individuals to apply learning in their organisational role. Delivery blends expertise from the School of Management and Cranfield's Air Transport Department with face-to-face and virtual learning.

Cranfield Master Classes

A series of Master Classes on a range of topics aimed at companies which have indicated an interest in Cranfield's expertise.

The GENERATION game

by **Dr Stephanie Hussels** and **David Molian**
from the Bettany Centre for Entrepreneurship

Family businesses play a vital role in economies across the world.

In the UK, for example, two-thirds of all private sector firms are family businesses, contributing over half of GDP and around 40% of private sector employment. Although they cover all sectors and come in all shapes and sizes, they share the common challenge of juggling family priorities and emotions with the needs of the business.

Most will want to pass the business on to the next generation but relatively few actually do so. Less than half of family businesses will pass to the second generation, and only a fraction will pass to the third. In the next three years alone, over 170,000 family businesses in Britain will no longer be controlled by the senior generation, and nearly 50% of these have yet to identify the successor for their business. Without formal succession planning, family-owned businesses run the risk of not being sustainable.

Some owners regard succession planning as simply a question of informally handing over the business from one generation to the next. They do not want to plan or think about their withdrawal from the business. This reluctance typically arises from a strong sense of attachment to the business; an aversion to letting go of control and power; fear of retirement; and also the inability to make succession choices between their children.

> “It is never too early for a family business to start planning for succession.”

Financial factors often also play a part. In short, if there is not an adequate successor selection process in place, a business can either cease to exist or fail to realise its true potential. Those families who do successfully pass their business on, stand a good chance of seeing their business go from strength to strength.

So what are the key issues family businesses need to consider when succession planning?

1. Plan for the business and plan for the family

Succession is a process rather than a one-off event of handing over the baton. Families that understand this consider it a multi-stage process that happens over years, beginning long before the time when the heirs step up to their new roles. The planning for that process will encompass not just the roles of the next generation in the business prior to succeeding, but the preparation of the business for the succession. It will also cover the role of any non-family management in the process; changes to shareholding structures; board membership and management; decision-making processes and impact on the family. All too often succession planning focuses just on technical issues - financial, tax and legal aspects - whereas the bigger challenges of the human dimensions are often completely neglected, because everyone wants to avoid the ‘zone of uncomfortable debate’. If we look at multi-generational family businesses that continue to flourish, we see that these families share common goals concerning both the business and the family. For example, they have mechanisms to resolve conflict and deal with emergencies and continuously build trust among family shareholders who are outside the business. There must be a clear vision of the relationship between the family members and the business, which may well evolve over time along with clearly articulated values.

2. Prepare the next generation

When succession is managed smoothly, the next generation is prepared not just through the right education and development, but often through gaining their early experience elsewhere. When they do then join the family business, they arrive as managers in their own right, with skills and experience, and are not viewed as the ‘kids with silver spoons in their mouths’.

At Cranfield we see an increasing number of students from family businesses on the MBA and other master’s programmes to prepare them not just for their eventual role in the family business, but for their professional careers. In a growing number of cases where a family business has philanthropic interests, the next generation will take responsibility for managing charitable or social enterprise projects, as a means of cutting their teeth prior to entry into the main business.

It is also common for the next generation to take a director role in the business at the same time as the senior generation steps back into non-executive roles. This means they can offer advice and guidance when asked whilst giving the incoming generation the room to breathe and put their own stamp on the business.

3. Hire from outside the family

Attracting and retaining staff from outside of the family is the third key element in the process. It is a fortunate but very unusual family that has a gene pool capable of supplying all the ability necessary to take the business into the second, third, fourth generation and beyond. Non-family members from board appointments downwards will be attracted to a business where achievement and performance are justly rewarded.

Many family businesses treat inter-generational transition as an opportunity to reassess the governance structures they have in place and recognise that employing more non-family involvement can be a step forward. Both outside advisors and board members often bring a detachment and clarity to decision-making that is inherently difficult for those family members who are often too emotionally attached.

It is never too early for a family business to start planning for succession. The perception that succession is a brief episode occurring over a short time is almost certainly a significant barrier to getting it right. Today’s family business has access to an ever-growing range of processes and tools such as family charters, constitutions and councils that smooth the path and create a roadmap for a long-term, sustainable evolution that works for the family, its business and all of its stakeholders.

For whom the **BILL** tolls

by **Dr Andrew Angus**, Senior Lecturer in Economics and Director of the MSc in Management and Corporate Sustainability

Are energy prices set to keep rising in Europe?

They say there are only two certainties in life: death and taxes. In Europe you could be forgiven for thinking that annual energy price hikes had been added to the list. Between 2008 and 2012, electricity prices for European businesses increased above inflation every single year. There has been speculation over the cause, from rising wholesale energy costs to the cost of green incentives and even price fixing. So what is happening in the European energy market and what are the implications?

Retail energy prices reflect the wholesale cost of energy – the buying of energy commodities or generating electricity. They also include the cost of distributing energy, the taxes imposed by government and a margin for the energy supplier. Across Europe wholesale costs account for 45-60% of the retail price, making this element the most critical in determining the price we pay.

There is a tendency to assume that wholesale prices have been increasing. Since January 2010 the World Bank estimates the price of Brent crude oil and European natural gas have increased by about 45%. But not all prices have increased. Since 2010 the price of US natural gas has decreased by 32%, and between 2008 and 2012 European wholesale electricity prices fell between 35-40%; even oil and gas prices have remained relatively stable since the beginning of 2012. These price differentials arise because, with the exception of crude oil, energy commodities such as gas are traded regionally, because of limited transport options and the cost of delivery. In the absence of inter-connectors between national grids, electricity is often traded nationally.

The difference between markets is striking when looking at relative energy costs in Europe and the US. European gas is now three to four times more expensive than US domestic gas, while European electricity is twice as expensive as US electricity. The price differential is largely because the US has exploited its shale gas reserves, whereas the EU favours renewable energy. Shale gas is relatively cheap compared to most forms of renewable energy. Paying for green energy has added about 8% to the retail price of electricity in the EU. The International Energy Agency predicts this difference in strategy will cause gas and electricity prices to remain higher in the EU compared to the US until at least 2030, and will also cause the EU to shed 10% of its workforce in the energy sector, which currently employs about 30 million people.

Forecasts suggest that eventually ‘renewable generation’ will lower the cost of European energy as technology improves, although these savings could be initially offset by the costs of investing in low carbon energy infrastructure and replacing some existing infrastructure. The EU is betting that over the long term renewable energy will provide secure, cheap and clean energy. However, the US believes shale gas will provide secure, cheap energy until the next wave of technology arrives. For European business, 2030 is a long way off.

Europe will however benefit from the shale gas revolution in the US. Cheap shale gas has displaced US imports of liquefied gas, as well as some domestic coal. These displaced commodities are flooding other markets, bringing downward pressure on wholesale prices. Combined with changes to the way gas is priced in Europe, gas prices are moderating. Nevertheless, a quarter of Europe’s gas is supplied by one company and there are limited routes of supply and ageing infrastructure. There is a pressing need to invest in new supply routes to encourage competition and reduce volatility, but this will be expensive.

Experience should tell us that uncertainty is the only certainty in energy markets. Price volatility is often more dominant than trends. In these circumstances energy efficiency makes good business sense. With careful energy auditing there is often scope to simultaneously reduce energy use and costs. Reducing our energy requirements also reduces exposure to price volatility (as well as doing our bit for climate change).

The time to act may be now; governments are offering generous subsidies for those investing in renewable energy or efficient technology. Innovation will be essential to an era of high energy prices and being savvy with where and how energy intensive activities are undertaken will be important sources of competitive advantage. MF

> “European gas is now three to four times more expensive than US domestic gas.”

Walk a MILE in their shoes

by **Dr Emma K. Macdonald**, Director of the Cranfield Customer Management Forum and Customer Experience Strategy programme

It has never been more important to keep close to your customers. With an explosion of media channels, customers now have access to countless sources of information on the products and services they are interested in.

Customers can find information from offline and online sources, from real and virtual friends, from retailers, product experts and from other consumers. A quick search online will bring up price comparisons and reviews to help customers get the best product at the best price.

Keeping in touch with customers via all of these channels presents a mammoth challenge. The reality is that when making a decision about what and where to buy, customers can now get all the information they need without even making contact with the company they are buying from. It is quite feasible for customers to make a commitment to a brand without any input from the company at all.

So how do you keep close to customers across all stages of their journey? To start you must put the customer experience and their requirements at the heart of your organisation. In order to develop a customer-centric approach you must understand the multichannel journey customers take and ensure that you are visible at each stage. In order to be fully effective a customer experience strategy must be supported by appropriate structures and metrics.

The traditional sources of customer insight such as brand tracker and customer satisfaction surveys are limited in their ability to capture customers' journeys across all touchpoints. For instance, they typically ignore peer-to-peer encounters and are notoriously poor at capturing customers' emotional responses to specific brand encounters. Although getting into the mind of customers is not easy, by taking the time to try you can identify areas where you are doing well, where you can do better, and where product or service innovation might be fruitful. This deep understanding is difficult to achieve through surveys but can be achieved through immersive research such as ethnography or real-time observation. Immersive research is particularly valuable as it can reveal how your customers view the world.

A good example of this is Procter & Gamble's 'Living It' programme, which involved sending a group of their brand executives to live with less well-off families in Latin America. By immersing themselves in the lives of their customers, the brand managers not only saw how their products were being used day-to-day, but were also able to understand the challenges facing their customers and the conditions in which they live, often having to manage without electricity or water.

“The most important action you can take is to step into your customers’ shoes every now and then and look at the world through their eyes.”

Customer experience management means considering the entire customer journey including those stages where you are not in contact with the customer. This might include parts of the customer journey where you rely on partner organisations for services such as bookings or delivery. While an inside-out perspective might say those non-core activities are not your responsibility, when you look outside-in from your customer’s perspective, you can see these are all parts of the customer journey that need to be considered. Your approach to customers must also account for the multiple journeys that they have with you. For instance, in the banking sector a customer might have a savings account, a mortgage and a credit card with their bank. Customer experience management will ensure that all conversations with the customer take this into account rather than focussing on individual products.

Customer experience is not just a hot topic in consumer markets. Business-to-business marketers have also recognised the opportunity for creating value for customers by extending what they offer beyond traditional boundaries. This explains the ‘servitization’ models adopted by companies like IBM, Rolls-Royce and Xerox. Xerox for example, have moved a long way from just selling photocopiers to providing document management business solutions for their customers.

A focus on delivery ‘in the customer’s space’ allows the supplier to become embedded in the customer organisation, which helps them to get closer to the customer. Those companies who are ahead of the game now offer contracts based on ‘value in use’ rather than products sold, such as the ‘total care service’ provided by Rolls-Royce, which contracts on the basis of aircraft in the air instead of engines sold. These servitized business models create complexity in terms of responsibility, risk and value definition, and require greater levels of cooperation and integration between supplier and customer. However the benefits of close supplier-customer ties include better understanding of customer requirements leading to better solutions and stronger business relationships.

For the supplier this level of customer closeness not only helps to understand the customer’s burning issues today but also provides valuable insight for tailoring future value propositions. Our research has shown that customers expect their suppliers to think about how to improve their business and are disappointed if a flow of incremental innovations does not emerge. While the pressure on suppliers to be proactive can be challenging, this represents an opportunity in a world where keeping close to customers is not always easy.

Developing the customer experience is a challenge organisations are grappling with across competitive markets. Achieving great customer experience requires commitment and cooperation across your organisation. In order to become more customer-centric, organisations must design appropriate channels around the customer journey, inspire the commitment of employees and stakeholders, and measure and reward the right activities.

However, the most important action you can take is to step into your customers’ shoes every now and then and look at the world through their eyes. MF

> "Our findings are consistent with the 'eat or be eaten' theory."

BEWARE of acquiring acquirer deals

by **Huainan Zhao**, Professor of Corporate Finance

Are public acquisitions bad for business?

Evidence shows that when a public company acquires another public company it can suffer a significant shareholder wealth loss at the point when the deal is announced. It has never really been clear why this happens, leading us to ask the question – are public acquisitions bad for business? At Cranfield we have just completed a piece of research with colleagues from Oxford and Bristol University that shows that acquiring companies' losses are largely as a result of whether or not the company being acquired was itself an acquirer (i.e. had previously acquired a number of other companies itself).

An example of this is the Firstar Corporation (now the US Bancorp). The Milwaukee bank announced its takeover bid for the Mercantile Bancorporation on 30 April 1999. On the day it was announced the Firstar stock price plunged by 5%, while the market rose by 0.2%. How could Firstar's shares have dropped so much in just one day and in such a mild market environment? A closer look at Mercantile Bancorporation reveals that they had in fact made over 20 acquisitions themselves in the previous four years. In other words, Firstar had acquired an acquirer.

For our research we looked at over 4,000 sizable public mergers and acquisitions (between 1985 – 2010) in the U.S. We defined a company that has made one or more acquisitions during the preceding three-year period as 'acquisitive'. By this definition, 27% of our sample were 'acquiring-acquirer' deals.

We found that a company's acquisitiveness is negatively related to the acquirer's announcement stock returns. Announcement returns averaged -2.24% for deals with acquisitive targets, -0.51% for deals with non-acquisitive targets, and -0.98% for the overall sample.

The figures show that if you announce that you are going to acquire an acquirer, your company's stock price will drop on average four times more than deals with non-acquisitive companies. From the sample period we looked at, six out of ten of the worst US acquisitions (based on stock returns) involved an 'acquisitive' target, in comparison to the top ten deals, none of which involved 'acquisitive' targets.

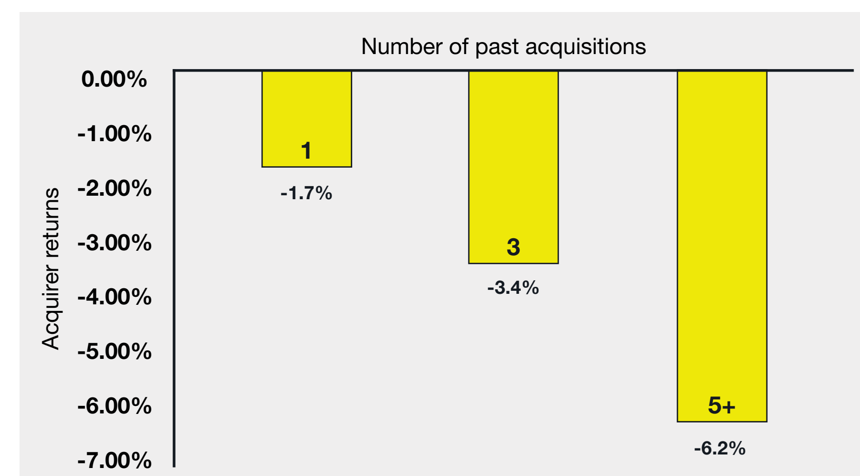
We also found that there is a negative relationship between the number of past acquisitions made by the target and acquirer announcement returns. Announcement returns on average drop by -1.7% when the target has made one past acquisition; it drops to -3.4% when the target has made three past acquisitions; and drops markedly to -6.2% when the target has made five or more past acquisitions. So, the more acquisitive the target firm is, the larger the losses of the acquirer.

Our findings are consistent with the 'eat or be eaten' theory of mergers and acquisitions, whereby a company reduces their chance of being acquired by acquiring another firm and hence increasing the size of their own firm. The basic idea is that a manager, concerned with the potential loss of control, decides to acquire the acquisitive firm before that firm grows larger and the company ends up being next on its shopping list. In other words, the company is defensive and it 'eats in order not to be eaten'.

Based on this theory, acquiring an acquirer is more likely to be motivated by the preservation of private benefits or control rather than to increase the value of the company. As a consequence, stock markets react negatively to the news. This is why this kind of acquisition has a negative impact on returns and why the more acquisitive the target firm, the lower the acquirer's announcement returns.

Our findings have a number of implications for the practice of mergers and acquisitions. For company executives considering making acquisition deals, you should clearly distinguish between acquisitive and non-acquisitive targets. It is clear from our research that stock markets do not welcome acquiring-acquirer deals. You should, therefore, think carefully if the target you are looking at is itself an acquirer.

Company directors and shareholders need to approach acquiring-acquirer proposals with extreme caution and immediately question the motivations of managers behind the deal. Rather than assume that any growth is good, always beware of acquiring-acquirer deals. MF



Faculty Focus: MICHAEL BOURLAKIS

Professor in Logistics & Supply Chain Management and
Head of the Cranfield Supply Chain Research Centre

How did you first get interested in logistics?
I became really interested in logistics when I was an undergraduate student at Athens University of Economics and Business studying Business Administration. That then led me to my first job at Danone where I was responsible for the delivery of dairy products to retailers.

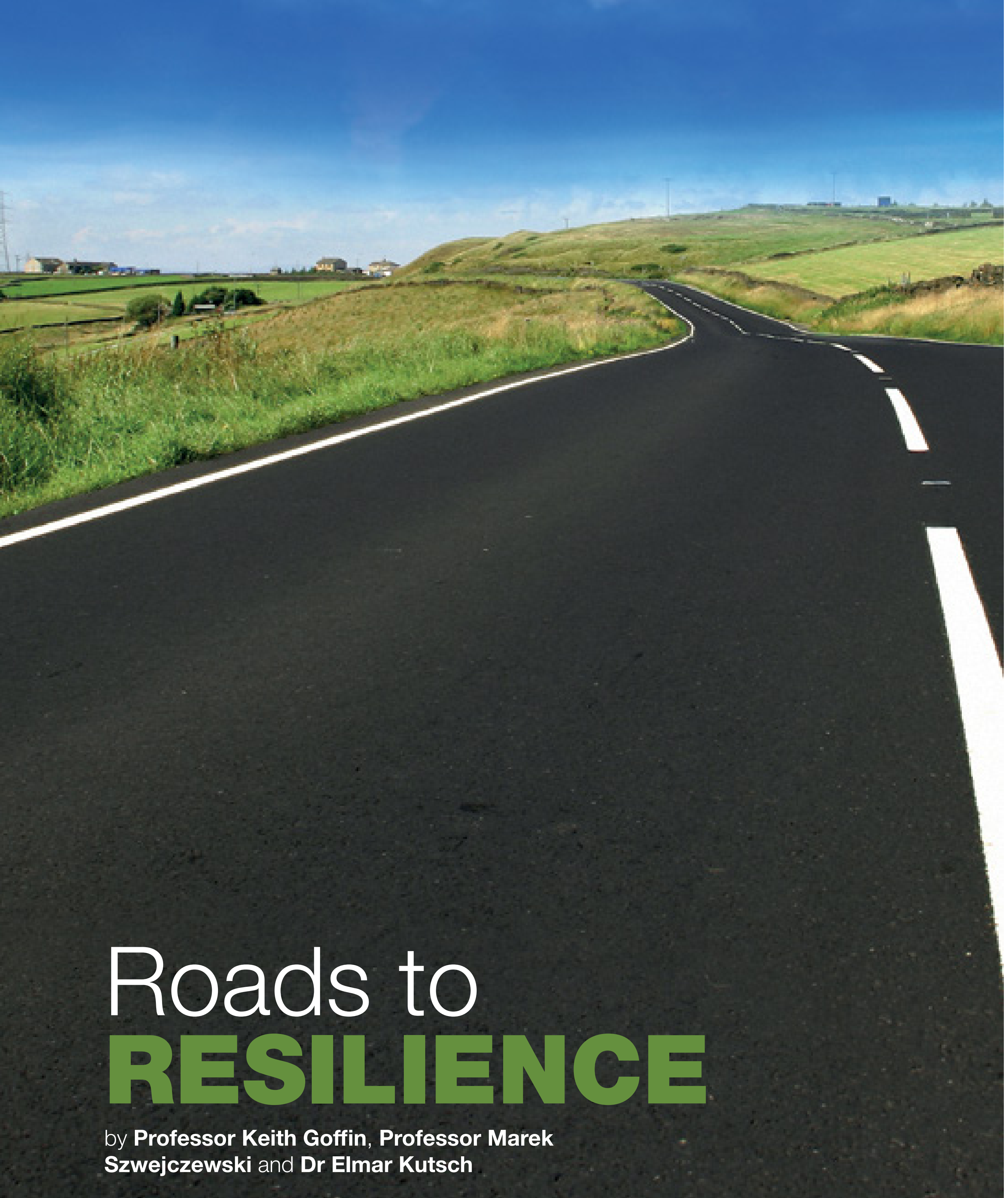
What are you working on at the moment?
I am working on a project to develop key performance indicators on sustainability for the food supply chain and for SMEs. I am also researching the rise of omni-channels (multi-channel retailing) and the impact on consumer behaviour.

Tell us about the Cranfield Supply Chain Research Centre
It is one of Europe's largest centres dedicated to research into Logistics and Supply Chain Management. The Centre attracts annual funding in excess of £500,000 through the research council, government, European Union and industrial sources. The objective is to generate new knowledge and to address specific industrial and societal needs.

What are the biggest challenges facing the sector?
The biggest challenge is 'uncertainty'. The sector, like most, faces economic uncertainty due to the financial crisis but also uncertainty due to the environment. Climate change and adverse weather conditions, like the recent floods in the UK, can have a significant impact on the supply chain. The availability of energy, water and other natural resources is also a cause for concern. To deal with these challenges the logistics sector needs to be flexible and ensure they have plans in place to deal with uncertainties.

What does the future hold for the sector?
The sector will continue to grow and evolve to support the changing world in which we live. For example, it is predicted that in the future most people will live in towns and cities. This trend (urbanisation) will impact existing processes and systems and the sector must be ready and agile enough to meet the shifting needs of society.

Do you have any words of advice for those looking to start a career in logistics?
The logistics sector has much to offer, but it requires committed and hard working professionals who are prepared to be challenged. The profession has grown and is now recognised as one of the most critical parts of business across the world. It is important to have a clear career path which includes educational development. At Cranfield, we offer postgraduate and executive logistics programmes to suit logisticians at all stages of their career.



Roads to RESILIENCE

by **Professor Keith Goffin**, **Professor Marek Szwejczewski** and **Dr Elmar Kutsch**

Companies today face unprecedented levels of risk that have the potential to impact on their reputation, brand and long-term success.

In recent years product recalls, operational accidents, and unacceptable practices in suppliers' factories have led to numerous corporate crises, which have severely damaged brands in the automotive, food, oil and clothing industries. In the age of social media, bad news travels instantaneously. Therefore, companies need to create a culture of resilience that can prevent crisis and protect their brand and reputation.

Too often, risk is perceived as a compliance issue that is solely the responsibility of the risk department, and which can be dealt with using processes and risk registers. However, recent research that we conducted for the risk management association Airmic shows that true resilience - the ability to manage the impact and consequences of risk - requires far more than process and compliance. We looked at eight leading organisations in very different sectors: AIG; Drax Group; InterContinental Hotels Group (IHG); Jaguar Land Rover; Olympic Delivery Authority; The Technology Partnership; Virgin Atlantic and Zurich Insurance. The results showed that these organisations have developed five principles that enable them to put risk management at the centre of their corporate culture. We have called these the five R's:

Risk radar - the ability to anticipate problems before they develop. By seeing things in a different way, not only will a company develop an early warning system, it may also identify new opportunities.

Resources and assets - that are well diversified, providing the flexibility to respond to opportunities as well as adverse or changing circumstances.

Relationships and networks - that enable risk information to flow freely throughout the organisation up to directors to prevent the 'risk blindness' that afflicts many boards.

Rapid response - to ensure that an incident does not escalate into a crisis or disaster and that people and processes are in place to restore things to normal as quickly as possible.

Review and adapt - the ability to learn from experience and make the necessary changes so that every adverse event or circumstance is identified, analysed, evaluated and improvements made to strategy, tactics, processes and capabilities.

> "Resilience needs to become part of organisational culture and board members need to support their risk managers in driving this change."

It is important to note that all five of the principles were found to be highly developed in all of the organisations we studied. So it is not sufficient when only one or two of them are in place, as it is the interplay between all five that creates resilience.

For example, the global hotels company IHG has an extremely sophisticated approach to risk management. The company constantly monitors risks across its 4,600 hotels (the majority of which are franchises), with every employee trained to spot potential problems. This early warning network feeds through to IHG's Global Risk Management Department, which has teams in place to respond to expected problems. Obviously, not every problem can be predicted in advance but IHG and other resilient companies find that by having pre-prepared responses for expected problems, the response to the unexpected can also be more effective.

A key element in building a flexible response is the fifth 'R', the ability to learn from experience and near-misses. Interestingly, the research identified that the ability to quickly identify emerging risks also allows organisations to become better at spotting the upside of risks - new opportunities. This allows them to be more successful in other areas of their business including: being more responsive to their customers and the markets they serve; achieving higher levels of staff motivation and gaining more trust from clients.

The results paint a clear message to business leaders - resilience needs to become part of organisational culture and board members need to support their risk managers in driving this change. Although compliance and good governance are essential, if the responsibility for risk management is limited to one department, then problems will be recognised too late, responses will be inadequate, and the problems will transform into crises. Tools, techniques and processes are not enough; resilience must be based on the right organisational culture, where everyone is aware and takes responsibility for dealing with risk. MF

Leading CHANGE

by **Graham Clark**, Senior Lecturer in Operations Management

How do you lead culture change in organisations and why is it so difficult to accomplish?

There are many theories on how to manage people through change, from Lewin's three step process ('Unfreeze, Change, Freeze') to Harvard Professor John Kotter's 1995 paper, 'Why transformation efforts fail' which introduced an eight step process for leading change and was later developed in his book, *Leading Change*. Whilst there is merit in these approaches, not least in providing useful prompts for change leaders, my experience is that you need to look deeper.

The major barrier to change is that people resist it without even knowing they are. In fact, if you were to challenge them, they would be genuinely surprised. Edgar Schein's *Organisational Culture and Leadership* provides great insight here. He describes the organisation's 'basic assumption' as the underlying belief as to what it does and therefore what brings meaning to the organisation. In large scale change, it is all too easy to focus on what will be done differently and neglect to pay attention to how the raison d'être of the business has changed.

It's a challenge to deal with what's 'unconscious' for an organisation, but listening to staff conversations, particularly those with strong emotional elements can provide clues. For example, if a company were to move from a strong manufacturing focus based on product innovation to delivering customised solutions for customers, many staff will feel out of their comfort zone.

So how should you lead change in an organisation?

1. Remember to pay attention to the meaning of what the organisation does and demonstrate that you are building on the heritage of the past.

2. Enforced step changes may seem effective in the short term but you will find that people will always regress to their previous (comfortable) state.

3. Too often, leaders complain that the grapevine or rumour mill is always negative. A powerful tool is for change agents to create and publicise positive stories that support the new culture, thereby using the grapevine in a positive way.

4. Don't pretend that everything is positive. All you will do is to force resistance underground, making it even more difficult to deal with. Most experts on change agree that resistance can be really valuable because it forces change leaders to address areas which have not been fully resolved.

5. It's all in the timing! You will need to give people space to explore the reasons for change, particularly those who feel that they have lost power and influence. You need to provide a safe place for people to vent their emotions but at some point you must give them a glimpse of the future and invite as many as possible to create a shared understanding of how things will work in the future. The challenge of creating something positive will override the effort of holding on to something which is really not doing what it was intended to do.

6. Make sure that rewards and recognition are aligned with the future direction. A shift in the basis for promotion will send a powerful message throughout the organisation.

> "The major barrier to change is that people resist it without even knowing they are."

7. Remember it's a long term game. Be patient. It's likely to be several years before a cultural shift is complete. Behaviours may change but underlying beliefs take rather longer.

Finally, it is important for change leaders to manage themselves and know that it is not possible to please everyone and that there is a cost to dealing with the negative energy that will inevitably come their way. Those responsible for change need to ensure that they have appropriate support networks in place. They also need to manage their stakeholders and revise their stakeholder map on a regular basis, being flexible at all times.

Leading cultural change is a challenge but it can also be incredibly rewarding. It is also essential for businesses to survive over the long term. MF

“We didn’t price Royal Mail aggressively and, given the circumstances we were facing, we didn’t price it conservatively. With the Government still left with a 30% residual stake, the deal makes sense from all sides.”

DEAL or no deal?

Alumni interview: Mark Russell (MBA 1987)

by Stephen Hoare

Mark Russell, the Government’s corporate financier-in-chief, was at the heart of the most high-profile float of 2013, and will lead a series of major sales of Government assets this year.

Last December, the UK Government divested itself of a major part of its shareholding in Royal Mail, one of the biggest privatisations of recent years and a deal that will help ensure that the company can secure the investment needed to compete in the twenty-first century.

The man behind the public flotation was Mark Russell, CEO of the Shareholder Executive (ShEx), a 150-strong body that sits within the Department for Business Innovation and Skills. Mark believes the Government got the best deal possible in spite of headlines accusing it of seriously undervaluing Royal Mail’s assets as shares priced at 330p closed the day at 580p. “We were selling 60% of a business in a turbulent market that was potentially facing strike action and we wanted to leave the business in a strong position to access the equity markets. We didn’t price Royal Mail aggressively and, given the circumstances we were facing, we didn’t price it conservatively. With the Government still left with a 30% residual stake, the deal makes sense from all sides” says Mark.

Prior to joining the Civil Service, Mark held a succession of roles at AT Kearney, Lazard Brothers, Robert Fleming, PwC and latterly KPMG, from where he was seconded to work for the Shareholder Executive in 2004. His considerable experience in deal making and mergers and acquisitions proved the perfect preparation for his current role.

Motivated as much by intellectual curiosity, as any desire for wealth, Mark’s professional development hinged on studying for an MBA. “I managed to get the first ever research associateship AT Kearney ever gave and that led me to Cranfield which a senior consultant told me was one of the best business schools to advance my career,” says Mark.

Mark's enthusiasm for solving complex financial challenges stems from his time at Cranfield where he was influenced by two very important figures. "David Myddelton gave me an excellent grounding in corporate finance and was an inspirational influence. And I will always remember Malcolm McDonald: his inspiring lectures taught marketing from a practical business perspective."

By the time he arrived at PwC, Mark was involved full-time in mergers and acquisitions, an activity which first brought him into contact with the Government. "At PwC I was involved with the privatisation of the Property Services Agency, which was part of the Department of Environment. The agency was a devolved, regionally based organisation so we came up with five geographic sales. I really enjoyed the challenge and the interaction with civil servants."

Arriving at the newly created Shareholder Executive (ShEx) in November 2004, initially on a one-year secondment from his then employer KPMG, Mark was offered the job as head of ShEx's corporate finance practice and decided to stay on. His move from the private sector is a legacy of the 1999 Gershon Review which recommended that barriers between the Civil Service and the private sector be broken down in order to strengthen skills and boost organisational performance.

> "I will always remember Malcolm McDonald: his inspiring lectures taught marketing from a practical business perspective."

Around a half of the senior staff in the ShEx have a business, accountancy or finance background, and its host department, Business, Innovation and Skills (BIS), has one of the highest percentages of private sector expertise of any Government department. "ShEx is one of the truly cross-Whitehall groups: we report direct to other secretaries of state on their departmental assets," says Mark.

Although he is paid at the level of a permanent secretary, Mark's salary is far less than what a senior partner in a consultancy firm might earn. He explains "I took a significant pay cut. I was 44 at the time I made the move and had got to a stage when I was more interested in what I was doing than what I was earning." Among the fringe benefits, Mark lists the collegiate atmosphere, employee diversity and working with bright people. The downside is the complexities of balancing the needs of different stakeholders. "In the Civil Service, the decision-making can be ambiguous, bureaucratic and political," he admits.

As chief executive, Mark has two main areas of responsibility. The first is looking after the Government's stake in twenty organisations including the Met Office, Channel Four, Eurostar, and the Post Office. The Government's shareholding in the three part-nationalised banks, Lloyds, Northern Rock and RBS come under a separate body, UK Financial Investments which maintains a greater arm's length relationship from Ministers than ShEx.

Mark adopts a pragmatic approach to managing the Government's diverse portfolio but there is no automatic presumption to sell assets and no ideological privatisation agenda to pursue. At the moment, Mark is working on preparing for the sale part of the student loans book, currently worth approximately £40 billion in outstanding loans. "The £40 billion is the future receivable and we believe there will be a number of investors who could be interested in purchasing part of this," says Mark. He is also considering selling the Government's 40% stake in Eurostar for which there is no policy reason to continue to hold.

But it is the second part of his job which calls for a mixture of political and diplomatic skills coupled with sound financial judgement. The ShEx's corporate finance role involves situations where Government may consider supporting major British companies in temporary difficulty. Sound judgement is vital in deciding whether to risk taxpayers' money to support a sector or a business where failure would have serious political consequences.

Mark explains that a balance has to be struck between politics and finance and cites one of his best decisions was advising Ministers not to intervene in Jaguar Land Rover, now enjoying success under the ownership of the Tata Group who acquired it in 2008. He is also proud of his role in the rescue of care home provider Southern Cross and the saving of 40,000 jobs. "The company itself wasn't massively indebted but its landlords, who themselves had large borrowings, were ratcheting up the rent. This was a case where the Government might have had no option but to step in. "Instead of allowing Southern Cross to go bankrupt and then restructure its debts, I helped bring all the parties together and asked everyone to share some financial pain. What we achieved was a solvent restructuring," says Mark.

So what does the future hold? After a decade at the heart of Government backed corporate finance and having achieved so much Mark does not rule out a return to the private sector. At the top of his game and continuing to run and cycle, he cuts a youthful figure and says he is always up for a challenge. "I've still got three young children and three sets of school fees to pay. Let's see what life brings!" MF

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