# Managing Essentials

International

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## Editorial: Wilful Blindness

By Roland Maass and Wolfgang Battmann

In April 1801 a detachment of twelve ships from the British Navy, under the command of Vice Admiral Horatio Nelson, pounded the Danish Navy in the harbor at Copenhagen. Since the battle did not go well in the beginning, Nelson's commander Admiral Sir Hyde Parker signaled him to withdraw. However, Nelson raised the telescope to his blind right eye which he lost in the siege of Calvi 1794, and said to his flag captain Thomas Foley "I have only one eye. I have a right to be blind sometimes. I really do not see the signal". The battle lasted for several hours and in the end Nelson was victorious. It earned him the titles of Viscount and Baron.

Corporate leaders of the 21st century can neither expect a victory nor a knighthood if such acts of "wilful blindness" become evident. The most prominent case is a media tycoon who had apparently ignored emails about illegal practices. Lawmakers from the culture committee of the British parliament saw him as unfit to run the company. He is only the last in a row of politicians and managers accused of having wilfully ignored information, potentially subjecting themselves to prosecution.

"Wilful blindness is a term used in criminal law to refer to the acts of a person who intentionally fails to acknowledge information about matters that would make the person criminally liable. It describes an attempt to avoid civil or criminal liability for a wrongful act by intentionally putting oneself in a position of being unaware of facts which create liability", defines uslegal.com.

The phenomenon is, however, not only found in these arenas of life nor is it always connected to criminal intent. Worldwide, debtors have a tendency to stop opening the letters from their creditors after some time and parents often turn a blind eye to problems like the obesity of their children for a long time.

Of course for the observer, not opening a

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Inside this issue:



# Managing people

## Fraud remains a significant problem.

Fraud does not often make headlines on the front pages but remains a considerable, if not growing problem. The "Association of Certified Fraud Examiners" (ACFE) and accounting firm Ernst & Young (E&Y) recently issued comprehensive reports.

According to the survey from ACFE companies lose as much as 5% of their revenue due to fraud. The median loss was US$ 140,000, but in 20% of all cases more than US$ 1 million was lost. Frauds are typically discovered late, on average taking 18 months to be uncovered. Over 40% were detected after a tip off, in most cases from someone within the organization. Small businesses were hit particularly hard and had the largest median losses. Only 50% of all busi-

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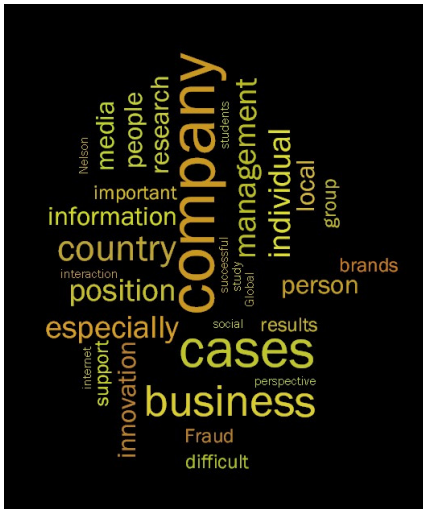

# Fraud remains a significant problem.

**(continued)**

nesses were able to recover some of them. The higher the position of the perpetrator the more money was lost, on average US$ 573,000 if the person was the owner or an executive. The vast majority of the fraudsters (87%) were first time offenders. Many of them displayed warning signs which were disregarded like living beyond their means (36%) whilst others had financial problems (27%) or unusually close relationships with customers (19%). In addition, a recent report by accountancy firm Ernst & Young indicates that the number of cases increased from 10% to 21% of companies surveyed in Western Europe. They also found the number of senior executives who would make cash payments to keep or regain business rose from 9% in 2010 to a current 15%.

That fraud is regularly detected late and only after a tip off shows that internal controls are ineffective. In the ACFE study the number of cases disclosed by management reviews or audits was below 15%. Evidently, more scrutiny in these areas is necessary together with a customer management which makes fraud difficult to hide. That a significant minority of upper management would go up to the limits and possibly over them is more than problematic since it can be expected that such an attitude reflects on the employees.

**Links and Literature**

2012 Report to the Nations on Occupational Fraud and Abuse. - Key Findings and Highlights (AFCE)

www.managing-essentials.com/2ea

11th Global Fraud Survey. Combating fraud: doing more with less (Ernst & Young)

www.managing-essentials.com/2eb

Fortunes of a Street Waif, unknown artist*

# Myths about customers: A brand is not a real friend.

In more than 50 years of research many "types" of customers developed, and also some myths. *Karen Freeman*, *Patrick Spinner* and *Anna Bird* try to unveil some of the mysticism in a recent contribution to "Harvard Business Review".

The basic wish of marketing to have a "close relationship" with customers has translated into a policy of frequent interaction especially by mail and newsletters. However, customers do not speak of a "relationship" when it comes to brands. Based on a study with more than 7.000 participants the authors found that 77% of them reserve this term for family and friends only. Also the interaction with brand manufacturers may be overrated. Only 13% of the participants cited the frequency of the interaction as important to establish loyalty. 64%, the vast majority, saw their link to a brand founded on "shared values". Consequently the frequency of interaction was regarded as not very important. An overload of emails flattens out fast and may be experienced negatively as an unwanted information bombardment. The authors advise us to treat customers with respect in regard to this possible cognitive overload.

The internet and social media especially have helped to establish the misleading picture of a real interaction between brands and their consumers; however today advertisements also dominate these markets. Despite all attempts to individualize them they remain in essence an instrument of "mass communication". Consumers are aware of this and are also fairly realistic when it comes to the place that brands have in their lives. For the brands it is even more important to mind what holds true for many distant family members: a lengthy email every day is just a little too much.

**An email a day may keep customers away**

**Links and Literature**

Three Myths about What Customers Want (Karen Freeman, Patrick Spenner, Anna Bird)

www.managing-essentials.com/2ec

# Cultural Issues

## Paradises Ltd.: Expatriates and their host countries.

Do expatriates really mix with local populations? Which countries are the most rewarding? Many newspapers discuss the standing of their respective country in the recently issued 2011 HSBC Expat Explorer Survey.

Since 2010 HSBC, a globally operating banking corporation, conducts a yearly survey investigating the working and living conditions of expatriates. Close to 3.400 respondents from 31 countries participated in the recently concluded study which focused on the three dimensions "economics", "experience" and "raising children abroad". Respondents answered a fine grained questionnaire detailing many aspects of expatriate life. With regard to economic conditions and life experience Thailand won out beating Saudi Arabia, Singapore, Egypt and Switzerland. The ranking differs if raising children is also an issue. Singapore, Hong Kong and the United Arab Emirates seem to support schooling and educational needs best. The multi-facetted data set also reveals considerable differences with regard to merging with the host country and the focus of the expats. *Shane McGinley* discusses in "arabianbusiness.com" that the United Arab Emirates, which hold the third place for expatriates with children, are a country in which the expats don't integrate with the local population and rarely learn the language. Singapore is the country where due to a low tax burden expats earn most and the Philippines are regarded as the most welcoming country.

The data offered on the interactive website provided by HSBC make it possible to look for the personal paradise. More than 50 criteria allow a ranking of the countries following individual preferences. However many expatriates do not follow their wishes but professional requirements and every country has its benefits and disadvantages. Paradise is still nowhere to be found on earth.

Paradijes,

Jan Brueghel de Oude*

**Links and Literature**

UAE expats don't integrate with Emiratis - poll (Shane McGinley)

www.managing-essentials.com/2ej

Expat Explorer Interactive (HSBC)

www.managing-essentials.com/2ek

## Brazil's economy driven by local consumption.

In a recent special report "Investing in Brazil", *Richard Lapper* and *Samantha Pearson* from the Financial Times note that whilst it may take some time for Brazil to further develop its trade balance sheets with other nations the local consumption is booming.

International companies are expected to invest up to US$ 60 bn in Brazil this year to participate in the booming local consumer market. Brazil is the only BRIC country which is self sufficient in water, energy and food. In addition to unemployment hitting a record low compared to 2003, the number of people earning more than US$ 3,875 per month is expected to double next year. Also the middle class earning below this bracket has risen considerably and the county is experiencing a consumer boom. This has attracted a wide range of investors from car manufacturers to specialty retailers. As an example, Brazilians have traditionally spent more on personal care items than other nations and an increased demand for these items shows that consumers are attracted by up market international brands.

The authors also address the problematic base of the Brazilian consumer boom: it is fuelled by expanded private lending. Rates in Brazil are very high compared to international standards. In October 2011 the average interest rate charged to consumers was 44% and to companies 30% per year. Payments by installments are a national pastime despite the exorbitant overdraft charges which can pass 100% per year. Government and Central Bank are currently working on cutting rates, but especially for consumers there are limits to the debt they actually can shoulder.

**Local consumption in Brazil is booming**

**Links and Literature**

Consumption and resources are central to development (Richard Lapper)

Wealth management: Rising incomes mean business is booming (Samantha Pearson)

www.managing-essentials.com/2el

# Business Cases

## Global branding: The case of Pepsi.

Pepsi Cola, confronted with the sad news that their number 2 position had been lost to Diet Coke, tried to tackle what is perceived as an "identity crisis" with the brand. *Natalie Zmuda* of "Advertising Age" reports details which exemplify for *Steve McKee* of "Bloomberg Businessweek" the need for world spanning integrated marketing.

All business may be local, but communication of and about brands has become global and therefore fragmented. Classical media is close to being pushed into the background by internet based advertisements on a variety of devices, many of which are now portable. To create a consistent identity with messages and media therefore becomes paramount. Pepsi has recently evaluated the results of worldwide research to pinpoint the core of its identity in order to formulate a global positioning statement. This research based approach stands in contrast to previous positioning approaches taking up trends in pop-culture. Now the company is focusing on the context of consumption. The result is a global campaign around the tagline "Live for now" with which the company hopes to capture the universal "excitement of now".

As interesting as this approach to global branding is, the problem could be that Pepsi rebrands itself often. The logo of the company itself has changed 11 times since 1889 whilst main competitor Coca Cola's logo is essentially unchanged since 1886. It remains therefore to be seen if this is a lasting push. It is however certain that the need of being recognised, homogeneously and on the spot, in a variety of media and on a multitude of often short lasting devices all around the world is going to increase.

**Links and Literature**

Integrated Marketing: If You Knew It, You'd Do It (Steve McKee)

www.managing-essentials.com/2er

Pepsi Tackles Identity Crisis (Natalie Zmuda)

After Fielding Biggest Consumer-Research Push in Decades, Brand Settles on 'Now' Global Positioning

www.managing-essentials.com/2es

## Valve Software: A successful self-organized and bossless company.

Valve Software, producer of game software hits like "Half-life" and "Counterstrike" made it into the headlines not because a new game was released, but because it is an exceptional company without bosses and relying on self-organization. *Claire Suddath* published a series of articles about the company in "Bloomberg Businessweek"

Valve employs about 300 people but has neither bosses nor a formal division of labor when it comes to, for example, marketing. Instead employees self-organize around individual or group projects and have to take care of customer contacts themselves. A glimpse of the spirit of the company can be found by reading its "Handbook for new employees". The work ethic which heavily relies on individual responsibility and intrinsic motivation drew as much attention as the posh work environment with cafeteria, gym, massage rooms and sound equipped bathrooms. The company sees its greatest problem in finding the right people to work with and sometimes it takes a long time to correct wrong decisions made in this area. Further, the individual approach makes it difficult to develop a system of mentorship.

Great teams need no leaders but effectively lead themselves. It is rare that this effect can be observed for a medium sized company. Products and distribution channels of this niche in the software market may help in this case. It will be interesting to see if the company can maintain this form and stay on this successful pathway over a longer period of time. Many collectives turned into more conventional firms over time.

**Lead yourself in the gaming industry**

**Links and Literature**

What Makes Valve Software the Best Office Ever? (Claire Suddath)

www.managing-essentials.com/2et

Why There Are No Bosses at Valve (Claire Suddath)

www.managing-essentials.com/2eu

Handbook for New Employees (Valve Software)

www.managing-essentials.com/2ev

# Editorial

*(Continued from page 1)*

creditor's mail seems strange, however, it is not completely irrational. The debtor knows what the letter is about; a positive surprise is not expected. Whatever the exact amount may be now, it will be higher than in the last one and as before there is still no money to pay it. So, why open the letter and read the details? Also, the letter is in most cases only one of many. Negative information you cannot act on is often more of a burden than a help. In hindsight it seems evident that action should have been taken earlier. But when? To take on some credit regularly seems not to be problematic. There seems no need to act as long as it is small but it is hard to significantly reduce the burden when it becomes too much. The tipping point is easy to miss.

The qualification "wilful" summarizes a range of possible levels of processing in denial. The decision of Nelson was deliberate, but sometimes, as in the case of the letter from the creditor, the information is partially or fully ignored on an immediate and almost preconscious level. Bad news events one cannot act on become stressors and when their pressure exceeds one's ability to cope, "blunting" is a prominent strategy. This was identified by eminent stress researchers Lazarus and Folkman and demonstrated in the 1980s. We do not want to see or know in detail what we do not like. Ignorance may not be bliss but it makes everyday life easier if there is not a solution to the problem.

In corporate life there often seem to be additional good reasons to give in to wilful blindness on a conscious level of processing. In contrast to his superior, Nelson saw himself on the road to victory and in his case local knowledge beat distant anxieties, but this is not always the case. Mostly, messages are less unequivocal but address questionable events and procedures. However, these are often informal solutions, effective but not really legal workarounds or traditions. Nearly everywhere in the world, offering a bribe to obtain a contract is strictly forbidden nowadays, but ten years ago such business promoting expenses were a regular position in accounting and there are still countries where such forms of business promotion are helpful. Nearly everybody who turned a blind eye to these sometimes grueling initiation rituals, often found in institutes of higher education and parts of the military, knew about them. Most people who had to deal with this problem later had taken part in them decades earlier. However, it needed publicized severe incidents to stop them.

Finally, in corporate life some diffusion of responsibility is already present at the beginning. Why should one be the first to blow the whistle? Why don't other people

Captain Horatio Nelson,
John Francis Rigaud*

**We do not want to see what we do not like**

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who certainly know about it and should be more concerned, take up the issue? Margaret Hefernan roots the “wilful blindness” in companies to the dislike of “naysayers” and their fear of negative responses in the form of social isolation or getting fired. Also for private debtors, leaving things as they are is much more convenient than to change them and if it becomes excessive somebody will hopefully do something.

Preventing “wilful blindness” in consequence is in general a difficult task and even moreso in companies. It requires the self discipline to cope with negative events when it comes to appraising the matter as well as the courage to bring the matter up. To create a corporate culture in which employers feel empowered to do so is a question of leadership. It is however, worthwhile to create a culture of trust, honesty and openness in which open eyes are more rewarded than closed ones. In many cases companies do not stumble over the actual problem but the way it is treated.


**Links and Literature**

Definition of “Willful blindness”

www.managing-essentials.com/2ew

Hefernan, M. (2011). Willful Blindness: Why We Ignore the Obvious at Our Peril. New York: Walker & Company.

Lazarus, R.S: & Folkman, S. (1984). Stress, Appraisal, and Coping. New York: Springer.

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Managing Essentials is on its way to become the premier newsletter for general managers, specialists in organizational development and human resources professionals. Managing Essentials biweekly reviews and abstracts recent articles about new approaches and best practice in the “human side of enterprise” with special reference to the challenges encountered in international management.

We focus on the essentials of leadership, change management, organizational learning, recruiting and retaining, organizational (mis-) behavior and ways to improve the impact of management. For these topics we identify and pinpoint those approaches and insights which contain “actionable knowledge” or have proved themselves in practice. In addition, Managing Essentials tries to identify inspiring new ideas in and outside academia. Our editorials evaluate and give the background of those central issues from which many pragmatic solutions derive.

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*Source: wikipedia.org