The New Normal

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The New Normal
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Editor-in-Chief
Saku Mantere

Managing Editor
Rosalie Nardelli

Creative Direction/Design
raj grainger

Marketing
Sabatino Delli Compagni
Dominique Sarault

Illustration
Kotynski
Jacob Myrick
Jean-Bernard Ng Man Sun
Dalbert B. Vilarino

Cover
Dalbert B. Vilarino

Printing
Andora Graphics

Contributors
Sebastien Betermier
Ty Burke
Lisa Cohen
Maxime C. Cohen
Samer Faraj
Maeve Haldane
Megan Haynes
Patricia Faison Hewlin
Kathryn Jezer-Morton
Dongyoung Lee
Yu Ma
Alain Pinsonneault
Shelagh Plunkett
Saibal Ray
Juan Camilo Serpa
Desmond Tsang
Selena Zhu

Colophon

Desautels
Faculty of Management
McGill University

1001 Sherbrooke Street West
Montreal, Quebec
Canada, H3A 1G5

delve@mcgill.ca

Everything seems to change when a crisis hits.

From the Editor

What is the New Normal?

Organizations learn constantly. They would not survive competition if they didn't. Yet this learning is often gruesomely slow. Organizational practices and routines tend to stick and organizational structures tend to persist. All this seems to change when a crisis hits.

During the last few months, we have all made significant adjustments. Parents have figured out new ways of working and parenting. Managers have found new ways of leading their teams and organizations. Rules for working at home or approving bills as well as communicating with colleagues, customers, and stakeholders have been rewritten. With less time spent travelling and commuting, COVID has brought some families together, while others have suffered economic hardship and a strain on mental health from the dissolution of boundaries between work and free time. Scholars will spend years figuring out the true economic and social impact of these challenges.

One enduring insight that I have gleaned from studying organizations and organizational change is that the experience of working in an organization results in thinking that many things, if not most, are impossible to change. It is not that managers want things to change and staff is resistant. Rather, it seems that organizations abide despite the brave efforts of those seeking improvement. I suspect this is one of the reasons why my colleague Henry Mintzberg, one of the founders of organization theory, has confessed that although he has dedicated his professional life to understanding organizations, he has spent his private life trying to avoid them!

Scholars of organizational change like to draw a distinction between radical change and gradual change. An organizational life cycle is conceived as a succession of short, dramatic periods of change or renewal, interspersed among long periods of gradual transformation. Periods of radical transformation are considered crucial for organizations to stay adapted to their environments, serving their customers in profitable and sustainable ways.

Dramatic events reveal new possibilities and call into question entrenched beliefs about what is possible. I am not providing a silver lining for human suffering or economic catastrophe; rather, I am simply pointing out that the current crisis is an opportunity for many organizations to examine their practices as they adjust to new circumstances. When non-essential meetings are eradicated, we get to evaluate which work practices are ultimately value-adding for performance, well-being, innovation, and sustainability. When online work becomes a necessity, the need for business travel is also questioned, which promises potential benefits for the global climate or the well-being of families. Now that we cannot maintain many practices of bureaucratic control in organizations, we might find that we are better off without some of them.

With these words, I invite you to immerse yourself in the inaugural volume of *Delve* magazine. The curated series of articles and the post-pandemic perspectives contributed by McGill Desautels scholars offer a window into a new reality that continues to evolve. The pandemic's impact will be far-reaching and the ensuing transformations will be radical. As we attempt to navigate our new reality, let's continue to be informed, stay connected, think critically, and, in doing so, hopefully find clarity in the face of new challenges.

Saku Mantere
Professor, Strategy & Organization
Editor-in-Chief, *Delve*

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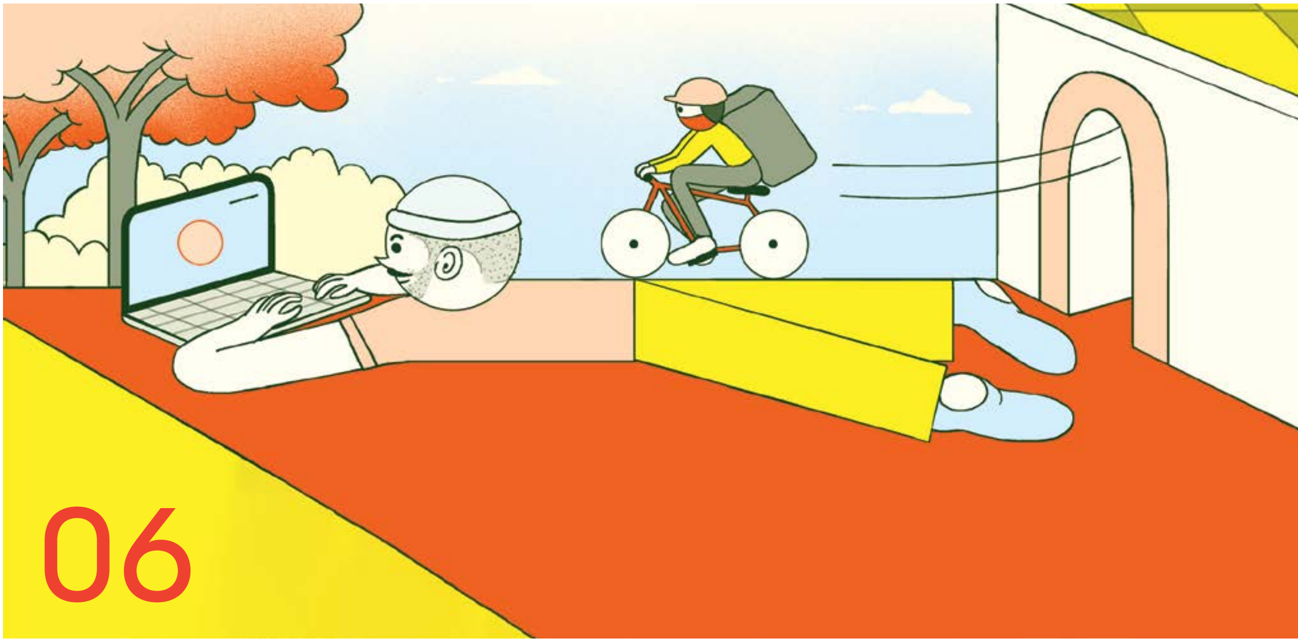
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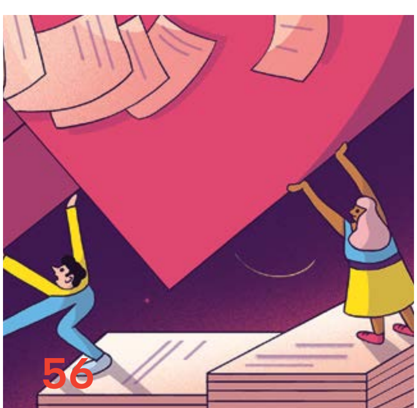
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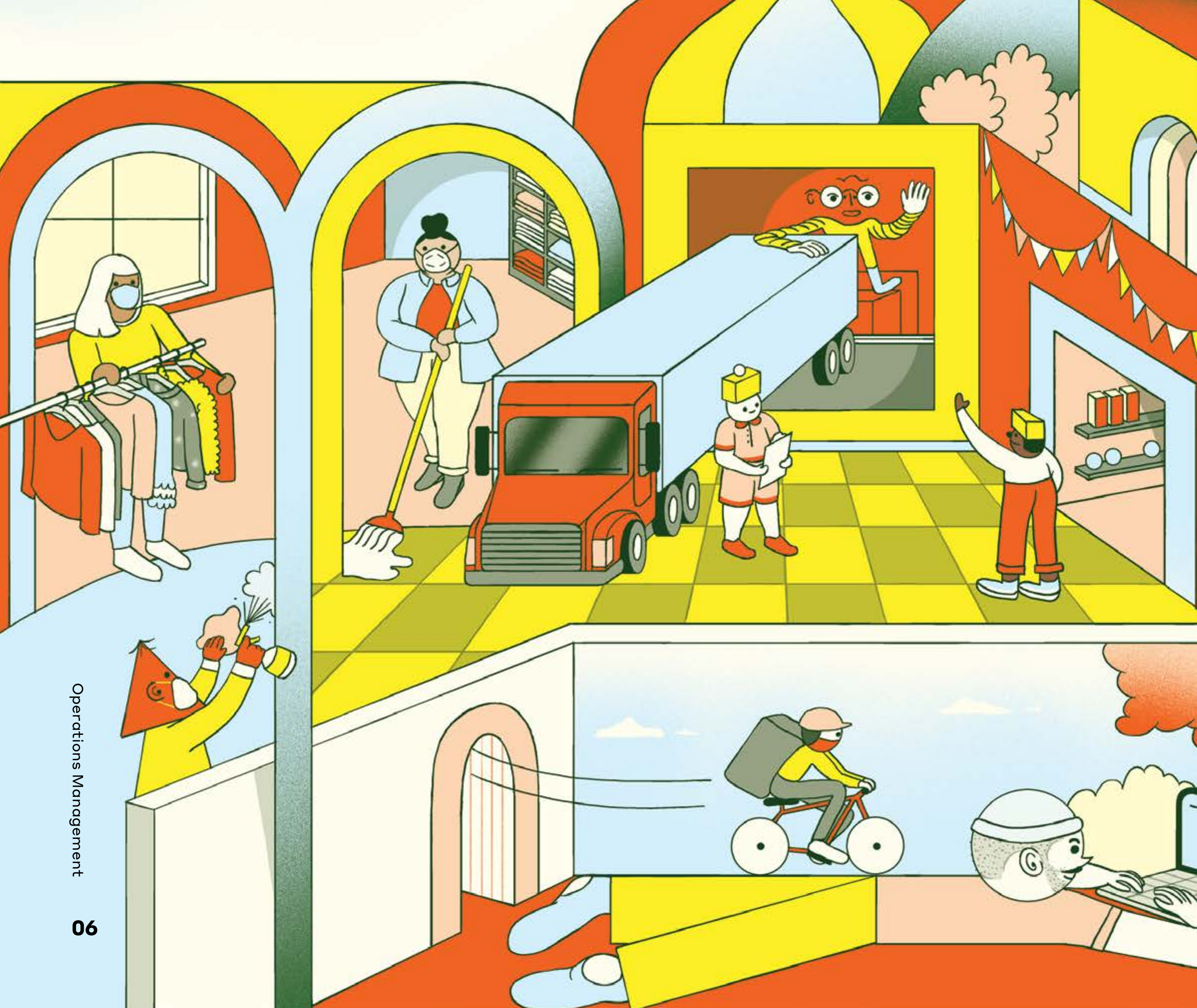
The Retailer’s Post-Pandemic Playbook

What strategies can retailers adopt to navigate the post-pandemic landscape?



Article: Maxime C. Cohen, Saibal Ray, Selena Zhu
Illustration: Dalbert B. Vilarino

Even if the spread of COVID-19 shows signs of slowing down and retail stores reopen, the economic recovery from the shutdown will be long and convincing people to visit brick-and-mortar stores will be a challenge.

A recent McKinsey webinar forecasts that U.S. retail revenues for 2020 will be down between 30 per cent and 50 per cent year-over-year relative to 2019. Given the far-reaching effects of COVID-19, it is essential for retailers to revamp their practices to successfully navigate the post-pandemic era. Here are two retail strategies that will be useful moving forward. →

Short-term precautionary measures and store network plans

As brick-and-mortar stores reopen around the world, retailers must enforce short-term precautionary measures to ensure consumer and employee safety. McKinsey surveyed retailers in several sectors—apparel, department stores, beauty, and specialty—and found that they intend to adopt a range of protective measures.

Among the respondents, 90 per cent will increase store cleanings; 54 per cent will impose safe distancing between customers; 49 per cent will limit the number of customers in-store; 34 per cent will require employees to wear protective gear such as gloves and masks; and 24 per cent will enforce temperature checks for employees. Additional measures that retailers may implement include one-way traffic aisles in supermarkets, a minimum distance requirement between customers in checkout lanes, mandatory hand sanitizer and masks dispatched at the store entrance, and thorough cleaning of shopping carts after each use.

Specific to the apparel and beauty sectors, fitting room capacity and availability of makeup tester products are expected to be limited. For instance, Macy's will prohibit customers from touching beauty testers for products such as mascara and lipstick, and instead will require its employees to test makeup on "face charts" using disposable applicators.

In addition to devising and implementing virus prevention measures, retailers may also execute short-term store operating-model changes. Such operational changes primarily entail a temporary reduction in both store hours and the number of employees per shift.

McKinsey-surveyed retailers that plan on lowering staffing levels expect to reopen stores with 22 per cent fewer associates on average and to retrain employees for an average of eight hours per employee. Many retailers will also need to reassess and modify their long-term store network plans. For instance, 32 per cent of McKinsey-surveyed retailers are contemplating closing underperforming stores permanently, while 34 per cent are considering pausing new store openings. Such decisions need to be done strategically while considering demand and supply.

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Many retailers will also need to reassess and modify their long-term store network plans.

Revamped retail formats: omnichannel retail

If consumers remain hesitant about shopping at brick-and-mortar stores in the foreseeable future, they may further opt for digital retail formats that bypass in-person contact. Brands must increasingly incorporate e-commerce channels into their broader strategy, thereby strengthening their omnichannel retail approach. The predominant objective of retailers in tackling the post-pandemic landscape should revolve around the integration of online and offline channels, thus blurring the divide between digital and physical retail.

Three promising omnichannel strategies that have gained prominence during the pandemic include: buy online, pick up in-store; permanent dark stores; and touchless retail.

Buy online, pick up in-store

The COVID-19 pandemic will yield long-lasting or permanent impacts on consumer behaviour, driven by fears of further outbreaks. As consumers continue to opt for digital retail formats post-pandemic, brands must adapt to this new reality by improving the integration of online and offline channels. During the pandemic, buy online and pick up in-store (BOPIS), and even curbside BOPIS (a store associate brings the customer's order to their car's trunk), emerged as successful retail formats that enabled consumers to purchase their desired products without spending time in stores, thus providing a convenient shopping experience.

According to Rakuten Intelligence, from March 12 to March 15 the number of BOPIS orders increased by 82.8 per cent compared to the same period last year. In designing a successful BOPIS format, Salesforce recommends the following: disclose inventory availability on the website, staff employees adequately on pick-and-pack tasks, provide several pickup options at online checkout, and use apps and geofencing to coordinate efficient pickups.

Permanent dark stores

Some retail locations that were revamped to fulfill BOPIS and delivery orders during the pandemic may never reopen as brick-and-mortar stores. These stores may instead be converted to permanent dark stores—closed to foot traffic and repurposed to fulfill pickup and delivery orders. As consumers and retailers alike are faced with a new "normal," one characterized by continual physical-distancing protocols, these permanent dark stores will allow brick-and-mortar retailers to reconfigure the function of their physical storefronts to shorten delivery times while increasing customer convenience and safety.

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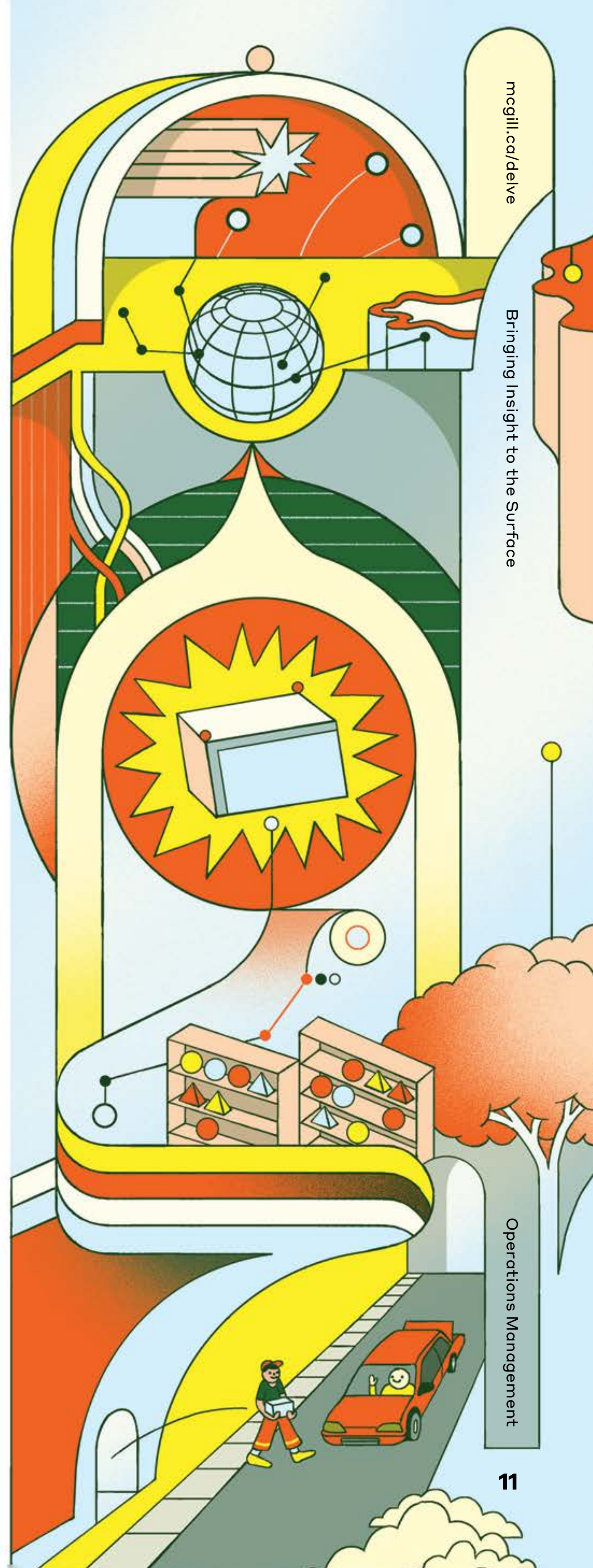
Some retail locations that were revamped to fulfill BOPIS and delivery orders during the pandemic may never reopen as brick-and-mortar stores.



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The pandemic will forever impact consumer behaviour.

During the pandemic, several retailers—primarily grocery, clothing, and home goods brands—converted some of their physical locations into temporary dark stores including Whole Foods, Kroger, and Bed Bath & Beyond.

The restaurant industry, in particular, has embraced the concept of dark kitchens (or ghost kitchens) that accept only delivery and takeout orders in response to the government shutdown of dine-in areas to prevent the spread of the virus.

While the future of the traditional sit-down restaurant industry remains uncertain, CloudKitchens, a startup founded by Travis Kalanick, offers a promising and sustainable business model in the post-pandemic world. CloudKitchens rents commercial space and repurposes it for use by shared kitchens for delivery-only restaurants.

Overall, temporary stores that have been converted into fulfillment centres may become a permanent post-pandemic strategy, especially if soaring e-commerce growth and heightened consumer expectations continue to strain retailers' fulfillment networks.

Touchless retail

Consumers are becoming more mindful of the surfaces they touch in public spaces and are more likely to opt for contactless payment solutions instead of using cash or credit cards. Mobile wallets such as

Google Pay and Apple Pay, “tap-and-go” credit cards, payment-enabled mobile apps offered by companies like Starbucks and Walmart, and even facial recognition payment systems currently being developed by companies such as Alibaba and SnapPay will be crucial in facilitating contactless payment transactions. In fact, according to an American Express survey, 58 per cent of consumers who have previously used touchless payment are more likely to use it now than ever before. Retailers must, therefore, reconfigure their POS systems to offer contactless payment options once stores reopen.

Another interesting touchless retail element that brands should consider incorporating into their post-pandemic strategy is contactless returns. Nordstrom, for instance, installed contactless return kiosks in its new NYC flagship store, even before the COVID-19 pandemic hit. These kiosks allow customers to simply scan the product QR code before placing the item in the return bin, all without interacting with store associates.

Technological advancements and artificial intelligence (AI) can configure new retail formats and elevate shopping experiences. Within the current industry landscape, frictionless retail represents the first generation of AI-enabled shopping formats. Frictionless retail—a concept best exemplified by the Amazon Go store, which operates under a cashier-less grab-and-go format and thereby eliminates checkout lines—aims to create seamless shopping experiences.

The next generation of AI-enabled retail, which has not been fully rolled-out, is based on the concept of touchless shopping: customers are able to complete their purchasing journeys without touching a single object in-store through the use of autonomous shopping carts, robots, and the like.

As new technologies become increasingly pervasive in the retail industry, we await the next AI-enabled touchless shopping experience, which is bound to disrupt the post-pandemic retail world anew.

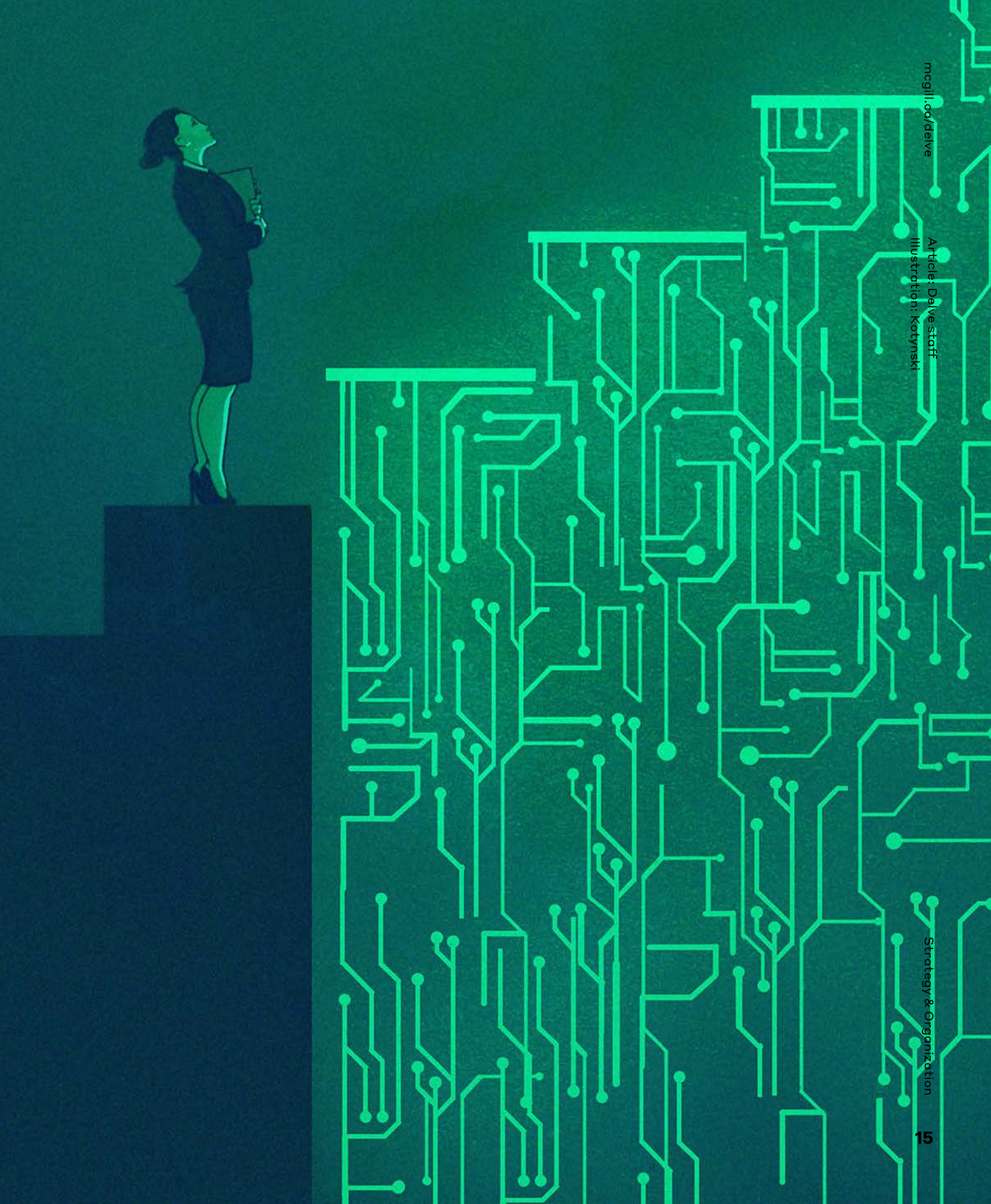
Maxime Cohen
Associate Professor, Retail Management and Operations Management; Co-Director, McGill Retail Innovation Lab

Saibal Ray
James McGill Professor, Operations Management; Academic Director, Bensadoun School of Retail Management

Selena Zhu
Research Fellow, Operational Strategy, McGill Retail Innovation Lab

The Future of Work in the Age of the Learning Algorithm

Technology is changing the way people work and organize in unparalleled ways



Article: Delve staff
Illustration: Kotynski

New technologies have always given way to greater automation and increases in productivity, as well as the loss of jobs and the creation of entirely new ones. As any history buff would confirm, these transformations are to be expected.

But to say that the learning algorithm—the latest technological feat—is just another chapter in humankind's long history of innovation and adaptation would be misleading.

When it comes to altering jobs and the way people organize, learning algorithms (i.e. technologies that build on machine learning, computation, and big data statistical techniques) have unprecedented consequences, says Samer Faraj, a professor of management and health care at McGill University.

In new research, Faraj and his co-authors, Stella Pachidi (University of Cambridge) and Karla Sayegh (PhD student, McGill University), identify key aspects that make learning algorithms uniquely consequential in the context of work and argue that their role in the workplace will be determined by how we respond to their implementation.

What sets algorithms apart?

The power of learning algorithms lies in their ability to plow through an immense quantity and breadth of information to identify patterns. "As a result, we are seeing the regime of quantification take hold in many fields, from journalism and law to the management of human resources, and the implications are profound," says Faraj.

Now more than ever, virtually every dimension of human life is tracked and quantified. And in the context of work, we risk reducing employees to a set of measurable dimensions and making predictive judgments based on the likelihood of action, rather than on actions themselves.

For example, in select U.S. states, algorithms are used to decide whether an inmate should be granted parole; in such cases, the algorithm renders a decision based on whether the inmate's data correlates with the profile of a repeat offender.

"This raises a number of issues. If learning algorithms are relied upon for their supposed objectivity, we need to remember that they are political by design," Faraj cautions. Whether implicitly or explicitly, they are imbued with the value choices of their creators, which are made in informal and intuitive ways.

Faraj also provides an example from the banking industry, where algorithms are used to determine if someone is a viable loan candidate. "The process that determines what constitutes a credit-worthy applicant will reflect the beliefs of the practitioner who pre-processes the data and pre-classifies the training dataset," explains Faraj. "If the algorithm determines that there is a negative correlation between living in a low-income neighborhood and the likelihood of loan repayment, we could end up discriminating unjustly against minority applicants."

Rethinking human learning

In a world where computers can evolve, humans will need to rethink the way they learn as well.

"Technological revolutions bring the redefinition of roles and the reorganizing of the workforce," says Faraj. "With the introduction of Internet search, for example, librarians had to adapt; they repurposed their expertise and re-conceptualized their professional identities."

We are seeing a similar situation with radiologists who spend their careers training to identify problems on scans. In recent years, image recognition software has improved to the point where computers are as accurate as (or better than) radiologists in identifying abnormalities on a medical scan.

On one hand, the technology frees radiologists from the rote task of identifying everyday problems to focus on more challenging cases, thus further developing their expertise.

On the other hand, those rote tasks are important training mechanisms that help people become experts in the first place. Without the repetition of seeing 100 mundane scans, how can a radiologist learn to identify an abnormal one?

"Our models of learning are changing," Faraj says. "We typically start at the bottom, do the mundane, and graduate slowly to more complex cases. There's now a big question mark about how we train people for a future where computers can learn better than we can."

The ideal future he sees is one where AI is used to help humans learn better and adapt more quickly. He points to some schools in China, which have implemented artificial intelligence programs in classrooms; the software creates personalized curriculums based on each child's needs and pace of learning, and the teacher remains in the classroom to help as needed.

While learning algorithms may force us to adapt and re-learn our roles, if we approach them correctly, they might also fundamentally improve the way that we absorb information.

People are not machines

One of the biggest risks of algorithm learning is the devaluation of the human workforce. "Learning algorithms have given rise to a tension because they threaten the legitimacy of professional expertise," Faraj explains. While learning algorithms yield greater business efficiencies, it is also important that we not reduce workers to mere datasets.

> **Now more than ever, virtually every dimension of human life is tracked and quantified.**

Today, Amazon warehouse employees are rigidly tracked as they find and deliver goods in mammoth facilities, sales associates are judged on their ability to make targets, and journalists are rewarded when their stories perform well online. The result is an over-burdened workforce that may not be focused on the right metrics. In the case of journalists, this might result in focusing on click-baiting sensationalism rather than on genuine insights; for sales associates, it might mean closing deals at any cost.

A major risk to employers is the resultant loss of talent. "Reducing management to an algorithm would be counter-productive in the long run," Faraj says. "Rather than relying on algorithms to maintain employee accountability, companies should use humans to ensure that learning algorithms remain accountable."

This can (and should) come from the top, but that doesn't mean there aren't also opportunities for the labour force to mobilize and keep the algorithms that shape their daily lives accountable. For example, journalists can lobby to monitor success based on qualified reader engagement (i.e. did they read to the end of the article or share it on social media?) over a single page view.

As algorithms become more sophisticated and ubiquitous, we also need to ensure that we are leaving room for creativity. Faraj cites the example of Slack, a workplace communication application that scans a user's unread messages and flags those deemed most relevant by its algorithm. "While this might enhance coordination at work, the algorithm is simultaneously limiting the information that employees are exposed to, which can hamper knowledge diversity and organizational innovation," explains Faraj.

In the age of the learning algorithm, the line between distinctly human and machine competencies has blurred, leaving many uneasy about how this interplay will evolve.

"More than with previous technological change moments, we will need to implement the right policies to regulate the designer goals behind the development of such highly performative technologies," warns Faraj. In the end, he says, it's important to see these programs for what they are—tools: "Learning algorithms should empower the workforce, not replace them."

COVID-19 has transformed all work and social relations by breaching our ability to engage in face-to-face gatherings. As organizations attempt to reopen, the new pandemic economics have reinforced the advantages of shifting fundamental organizing activities, such as decision making, organizational control, and coordination, toward learning algorithms—agents that are immune to the virus. Thus, many organizations are rethinking traditional models of work and intensifying their interest in delegating more human decisions to the realm of the algorithmic agent.

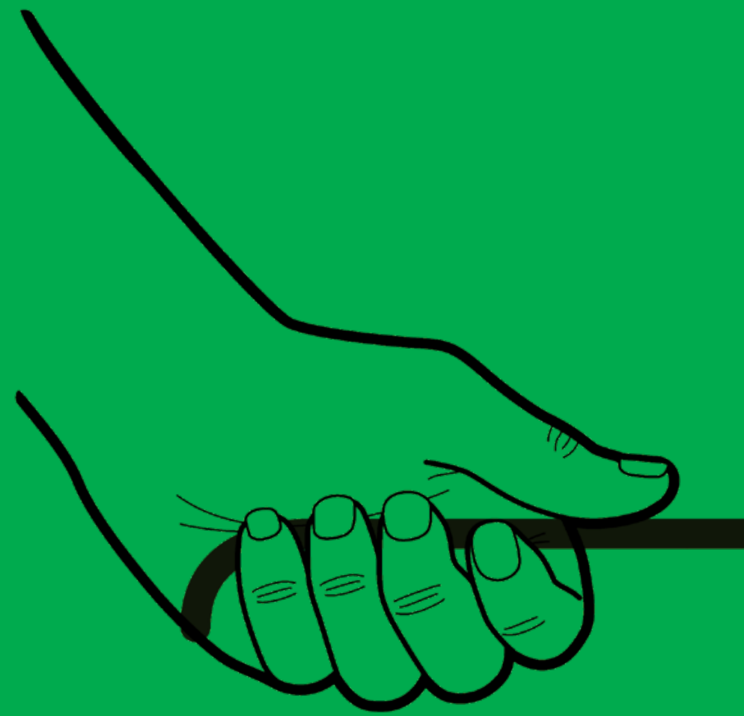
This may not mean that decisions will be made without management's involvement. Rather, we will potentially see more automated ways of organizing, as is the case with ride-hailing companies. In such firms, learning algorithms are deployed to match rides to clients (a coordination problem), control drivers' behaviour by linking their income to consumer ratings (a control problem), and pre-plan optimal routes based on real-time data (a decision problem), thereby reducing the use of human management.

When the pandemic first unfolded, such companies quickly shifted to the delivery of food and goods, and can now be considered more nimble than traditional, less algorithmically managed firms. However, whether the experience of workers subjected to algorithmic management is a positive one remains an open question.

Samer Faraj
Professor, Strategy & Organization;
Canada Research Chair in Technology, Innovation, and Organizing, SSHRC (Tier 1)

Based on the research article: "Working and Organizing in the Age of the Learning Algorithm"

The Silver Lining of Workplace Interruptions



Task relevance and mindfulness can help you stay on track and boost effectiveness

Article: Shelagh Plunkett
Illustration: Jean-Bernard Ng Man Sun

You're at work drafting an important marketing analysis for a health care app. A message indicator slides across your screen: the photocopier is down. Another: your dog walker is sick. Then, an e-mail prompt: a public health official has forwarded new data on age-related diabetes. Your spouse texts that they'll be late for dinner. All of these messages increase your perception of workload and leave you feeling overwhelmed. Your productivity plummets and your stress level soars. →

Knowing that, on average, interruptions come at you every three minutes—and require up to twenty-three minutes for you to recover from them—doesn't help. But perhaps this will: new research suggests that some computer-mediated interruptions can actually improve your productivity, reduce your stress levels, and boost your sense of job satisfaction.

Alain Pinsonneault, a chaired professor of information systems at McGill University, and co-author Shamel Addas, an assistant professor at Queen's University, have shown that there is an upside to e-mail interruptions. But how do we distinguish between negative and positive interruptions? The key is looking out for task relevancy and applying mindfulness.

Relevant information improves performance

Consider the onslaught of interruptions interfering with your ability to write that marketing analysis. Most were irrelevant, but one was directly related to the task at hand. The e-mail from the health official was an interruption that could provide the data necessary for your analysis. However, in the absence of mindful processing, you might have overlooked it.

"Multitasking is difficult to do and most often performance suffers when we attempt it," says Pinsonneault, whose research has revealed the possible advantage of IT-mediated distractions. He cites the example of a plane crash traced to an e-mail interruption during flight preparation and other research showing a 20 per cent drop in performance among university students dealing with interruptions during an exam.

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An important first step is making mindfulness and task relevancy a big part of all our workplace discussions.

Trying to multitask or address with equal measure every interruption leads to what researchers call "chains of diversions," in which each distraction leads to others in a cascading loss of concentration. In more than 40 per cent of cases, the work being done prior to the original distraction is never returned to.

Multitasking can be effective, however, when it's related to the job being performed, such as scanning a document for information related to a simultaneous phone conversation or breaking concentration to address new and related information as it comes through.

In such cases, workplace interruptions are not distractions—they are opportunities for improved efficiency, and with improved efficiency there is a reduction in stress that can sharpen focus.

Mindful processing of relevant information

“There are the two key elements that make some interruptions positive—task relevancy and mindfulness,” says Pinsonneault. Interruptions that are relevant to your work trigger mindfulness and mindfulness makes it easier to focus on relevant interruptions by filtering them from the cacophony of distractions.

While we may be tempted to shut off all interruptions to improve focus, doing so over an extended period of time can have negative consequences. Imagine that your dog walker’s cancellation leads you into a labyrinth of distractions that eat up an hour of your time. In a moment of frustration, you shut off prompts from texts, tweets, messages, and e-mails until the end of the day—but by doing so you miss the e-mail from the health official.

Perhaps you might immediately archive your incoming messages and address them later instead. But while this may be helpful in the moment, it won’t be in the long run because you’ll remain fully aware of the e-mail accumulation as the day progresses.

Enhancing mindfulness

Pinsonneault points out that achieving mindfulness or the ability to remain focused varies among individuals, but that the more it’s done, the easier it gets.

Employers can help by supporting workplace practices that make it easier to stay focused while avoiding those that lead to heavily subjective workloads, such as adopting multiple and diverse communication tools.

Another approach is to work on the sender because 70 per cent of interruptions are from co-workers and 50 per cent are not work-related. Think before you hit “send.” Letting co-workers know you’ve set aside blocks of interruption-free time also provides respite from the anxiety of message buildup and the urge to respond immediately to each interruption.

Employers can encourage their staff to take artificial measures that enforce mindfulness. Turning off all communication prompts except during regular and dedicated periods of time (e.g. the last five minutes of each hour or two half-hour sessions a day) enables focus to remain intact without the worry that important information is being missed. Working in a concentrated manner for set bursts of time—twenty-five to forty-five minutes, followed by short five-minute sessions of rest—also has proven to be beneficial for retaining focus.

These findings have design implications as well. The function that enables the sender to see when a message has been read compounds stress levels for the recipient. "That adds big pressure," says Pinsonneault. Instead, he recommends systems that recognize and file e-mails automatically for the recipient or that add tasks to the recipient's agenda without interruption. Even better would be a system designed to temporarily hold back all messages except those containing the task-relevant terms that are pre-programmed by the recipient.

Given our increasing dependence on IT-mediated communications, this silver lining of workplace distractions is encouraging. For Pinsonneault, an important first step is making mindfulness and task relevancy a big part of all our workplace discussions.

Perhaps no workplace technology is so commonly used and yet so widely reviled as e-mail. The COVID-19 pandemic has catapulted the digitalization of work to a whole new level. Heavy reliance on information technologies (ITs) has caused us to revisit how work is done, opened new opportunities, toppled silos, and provided easy access to people at all levels of the hierarchy. Yet, reliance on IT has also drastically increased the amount of interruptions managers face in their work. This is paradoxical: just when managers need to reflect, take a step back, analyze, and put things into perspective to face a crisis, their renewed reliance on IT causes their work to be even more fragmented by interruptions.

Despite a widespread perception that e-mail is a drain, our study shows that its effects depend on the content of a message and how e-mail is managed. Not all IT-induced interruptions are created equal. If the e-mail content is congruent (i.e. relevant to one's current work), e-mail interruptions can have positive effects on one's performance. Converting e-mail from a drain to a gain rests on shared practices: limiting communications to convey relevant information; requiring recipients to read and respond to e-mails in ways that limit disruptions to work; establishing the expectation that delays in responses to e-mails are acceptable. Rethinking how you and your colleagues use e-mail in light of these findings can ensure that it becomes or remains an effective workplace tool.

Alain Pinsonneault
Distinguished James McGill Professor, Information Systems; IMASCO Chair in Information Systems

Based on the research article: "E-Mail Interruptions and Individual Performance: Is There a Silver Lining?"

Is a Good Boss Bad for Workers?

Integrity in upper management can have unintended effects

Article: Maeve Haldane
Illustration: Jean-Bernard Ng Man Sun

There's a scene in the movie *Black Panther* in which King T'Challa enters a casino with his army general, the formidable Okoye. She's trying to blend in with the crowd, so she sports an itchy wig on her boldly tattooed head. She bristles at the disguise, but when the moment comes to fight, the wig flies off. Unencumbered by the facade, she reveals her true self in all her glory and, as Patricia Faison Hewlin, an associate professor of organizational behaviour at McGill University says with a laugh, "She just goes to work!" →

Hewlin loves the scene for showing that when someone is their authentic self they are a better worker, a topic she has explored from many angles.

For instance, she has found that employees are more likely to put up facades of conformity when the organization's values don't correspond with their own. The differences could concern political or religious beliefs, the employee could be a gender or socio-economic minority within the workplace, or could have different approaches to family-work balance. Making an effort to look as though one conforms isn't surprising; after all, people want to feel comfortable as part of the group.

The boss effect

Recently, Hewlin and her co-authors, Tracy L. Dumas (Ohio State University) and Meredith Flowers Burnett (American Institutes for Research), decided to look at another factor that can have an impact on how people portray themselves at work: the boss. They examined how a boss' integrity has an effect on whether an employee is being true to their own identity, even when there's a disconnect from the group's values.

If there were a boss who demonstrated integrity—who was consistent, trustworthy, and fair—would employees feel more comfortable being their authentic selves?

To test the influence of leader integrity on employee authenticity, the researchers conducted two studies. First, they developed a survey experiment that was administered to a group of undergraduates who were asked to express their opinion anonymously on a fictional university policy. Once their opinions were submitted, researchers devised gossip that was about the survey leader's integrity or lack thereof, which they leaked in a chatroom. Discussion about the fictional policy ensued and the students' comments were compared with their previously stated views.

Second, Hewlin and her team deployed a survey to full-time employees to gauge (i) whether their values aligned with those of their organization; (ii) if they perceived integrity among their organization's leadership; and (iii) if they felt comfortable expressing views conflicting with those maintained by their organization.

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Those who didn't fit in put up a facade, pretending to subscribe to the organization's values.

> Ironically, the leader who best accommodates authentic expression of self is the boss with the least integrity.

In both cases, they found that if employees were already aligned with the organization, a good leader makes little difference in how they expressed themselves. On the other hand, those who didn't fit in with the party line put up a facade by pretending to subscribe to the organization's stated values.

Ironically, the leader who best accommodates authentic expression of self is the boss with the least integrity. People will unabashedly say what they really think if they perceive lousy leadership.

Hewlin believes it comes down to respect. If there's a boss with low integrity, "Workers will be more authentic in their behaviour. It's more about, well, I'm not going to respect them so I'll do as I please," she says. Conversely, if someone doesn't agree with perceived norms but respects and admires the leader, that person will be more likely to shelve their differences and not rock the boat.

Overcoming workplace facades

There can be benefits to a little facade in the workplace. As Hewlin points out, "I've had executives raise their hands in class and say, 'I don't mind facades—it keeps things calm!'" Certainly, raucous differences don't need to be aired all day long. There should be enough accord for a team to be able to get the task done.

But all this cover up and disingenuousness takes a toll. It's uncomfortable for workers to spend emotional energy on somehow curtailing themselves, like not speaking their true minds at meetings, or believing they can't share anecdotes about their lives or give an opinion without social repercussions. They could become ambivalent or depressed—they become less engaged with the job and their work suffers.

So what's a good boss to do? If you're a boss with integrity, you might assume that people will feel at ease coming to you with a variety of perspectives, and you want to encourage that. After all, it's been shown that divergent opinions and diverse backgrounds are healthy and productive for organizations. But you must also recognize that people may not want to appear out of line, particularly if they respect you.

A leader must acknowledge workers' deference, Hewlin says, but also be explicit in saying that a multitude of ideas are welcome. The challenge may be to provide space for these differences to blossom—town halls, open forums, or affinity groups can help. A leader needs to create an environment where people can come to work and feel valued for being their true selves.

Hewlin suggests that a boss can say, "I actually need to hear your different perspectives in order for us to learn from each other and innovate as an organization." For progress to take place, diversity is crucial. The trick is keeping dissent and constructive critique relevant while allowing for authenticity among all members of the group.

Today's socio-political climate has placed issues around race, discrimination, and, more generally, diversity and inclusion at the forefront, revealing the extent to which psychological safety has been absent in many workplaces. Black and Indigenous People of Color (BIPOC) employees, and others whose identities have been traditionally marginalized, have assumed considerable risk, fearing that vocalizing their experiences of discrimination may lead to social exclusion or a compromised career path.

Authenticity is on trial as employees and managers grapple with how best to communicate perspectives and experiences. Organizational leaders should seek to develop an action plan that incorporates voices from different employee segments in ways that promote mutual respect and drive solutions—so that the values around equity, diversity, and inclusion are protected and uncompromised. These values must also be defined and communicated broadly so that everyone understands what they mean and how they will influence—and even change—how work is performed.

Doing so will help achieve the level of psychological safety needed for others to tear down their own facades and make useful, uninhibited contributions to organizational learning and innovative decision-making.

Patricia Faison Hewlin
Associate Professor, Organizational Behaviour

Based on the research article:
"To Thine Own Self Be True? Facades of Conformity, Values Incongruence, and the Moderating Impact of Leader Integrity"

Planning Your Startup Hiring Practice

Starting an organization from scratch is chaotic. Recruitment doesn't have to be. Here are three ways to bring order to chaos.

Article: Megan Haynes
Illustration: Kotynski

Finding the right talent is a hugely important issue that most organizations face, yet it remains a constant hurdle for many companies. One 2019 study from the HR tech firm PayChex found that two-thirds of hiring managers say finding qualified candidates is their top challenge.

This is a particularly difficult issue for entrepreneurial organizations. Hiring employee number six is going to have much more impact on culture, direction, and even long-term success than hiring employee number 60 or 600 in much larger organizations. And yet, little is known about hiring employees in startups. →

Ongoing research into startup hiring practices from Lisa Cohen, an associate professor of organizational behaviour at McGill University, finds that hiring has an even broader ripple effect than previously believed. Not only does the process of hiring alter the talent pool in startups, but it also shapes the way these companies view jobs for years to come, which can influence the broader talent pool and ecosystem of the entire startup community. It can even have an effect on finding funding. Venture capital funds and investors, for example, often view hiring as a barometer for launch readiness, and startups that make use of their VC networks for talent can build ties that benefit these organizations for years to come.

"I'm told over and over that hiring is central to startups. It's their most important practice. It's also their biggest source of pain," Cohen says."Bringing in those first warm bodies allows startups to do their work, determine structure, and learn what's happening in the rest of the world." Yet, despite the importance, Cohen says companies often lack hiring strategies, communicate their needs poorly, or fail to take advantage of broader networks for talent.

In one striking case, Cohen tells the story of a highly qualified applicant looking to get into the Vancouver startup community. After going through interviews with a couple of potential entrepreneurial firms, she left the process with the impression that the companies were disorganized and unable to communicate future job responsibilities clearly. Instead, she opted to join the more traditional world of a big utility.

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There's something endemic to the startup process.

"The negative experience removed her from the labour pool for all startups," Cohen says. "You see similar patterns in more traditional organizations, but I think there's something endemic to the startup process. People don't have established structures or practices. They're creating jobs that aren't just new to them, but often brand new to the world. They don't always know what they need or what a job should look like. That often means they look disorganized."

That doesn't have to be the case, of course. When it comes to hiring, Cohen's research has uncovered some best practices that can be implemented well beyond the world of startups.

Be purposefully flexible

Startups are, inherently, in constant upheaval, and a flexible attitude can be the difference between a successful launch and a flop. That remains true for the hiring process. Consistently, Cohen has found that a flexible attitude toward jobs and job creation was a key factor in hiring success.

In particular, opportunistic hires (i.e. coming across a talented individual who doesn't fit neatly into an already available job, and creating a position for her/him) worked particularly well for startups, her research found.

However, organizations need to understand which roles can and should evolve, and which positions are likely to stay static. At one organization Cohen studied, the role of a developer remained consistent throughout the 18 months she observed the firm. In contrast, at the same startup, the position of analyst evolved considerably and, in the early months, confusion about the position led many in the role to express unhappiness. "They were originally treated as consultants, but that's not what the company really needed," she says. "Ultimately they landed on a position that involved not only writing reports, but also other roles and responsibilities, and the employees are much happier now. If they'd been stuck on the initial thinking, it would have been problematic."

Be clear on what's most important

Flexibility only works when the candidate is made aware that there's a level of uncertainty involved in taking the job. This can work in a company's favour—to work long-term in a company full of chaotic uncertainty, employees need to be at least a little comfortable with risk.

But a nebulous concept like cultural fit is dangerous territory. As Cohen warns, it can backfire when companies fall into the habit of using *culture* to actually mean "we like this person," without clearly being able to define why.

Organizations can still hire based on cultural fit, but what that actually means needs to be clearly aligned with a company's values. Cohen suggests that startups list their five most important and least important values, and then use them as a checklist when recruiting candidates. If strong customer service is a key characteristic of the organization, then hiring managers

> **A nebulous concept like "cultural fit" is dangerous territory.**

should ensure that all candidates answer questions that demonstrate their ability to deal with difficult clientele. If passion is important, understand what you really mean by passion—is it really just code for people who are willing to work long hours?—and understand how you will assess whether people actually have it.

Don't throw all processes out the window

Finally, it's important for organizations—particularly for startups—to understand that, when it comes to hiring, they don't have to break the mold. Even the most innovative, category-bending social app is likely to need a financial person who can make sense of the funders.

"So many startups are focused on being innovative," Cohen says. "It can be easy to say, 'We don't want to do things the way the big companies do things.' But these established best hiring practices exist for a reason."

In the early stages, companies are so focused on "making it up as they go" and there's a lot of uncertainty around launching an organization. Using established hiring norms can be an easy way to bring some stability to an otherwise chaotic business.

"Don't just assume that if you want to do one thing differently, you have to do everything differently," Cohen says. "The most successful companies make conscious choices, they communicate clearly. Overall, they have a plan."

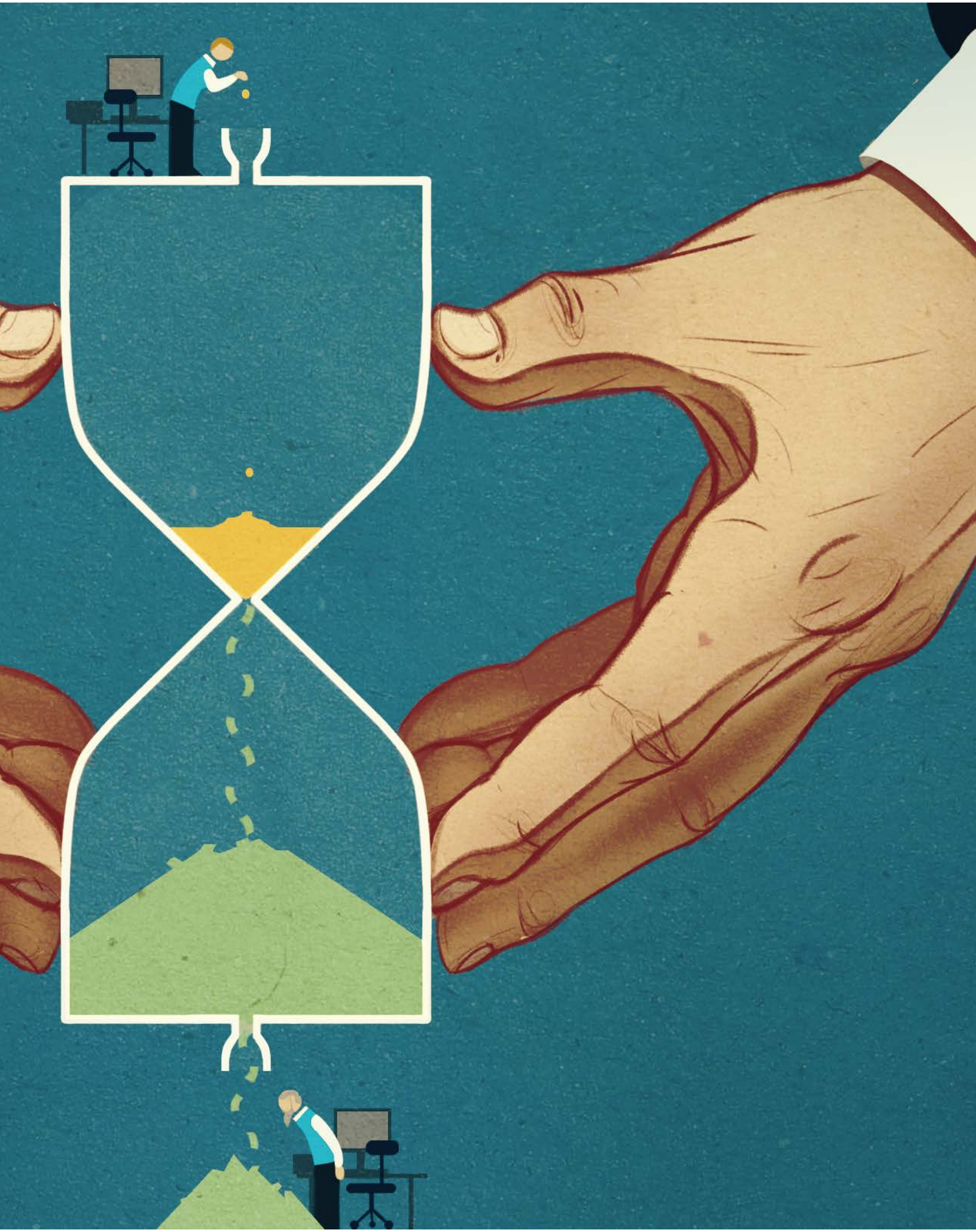
COVID-19 has created a new normal for startup hiring practices in two major ways. First, the pandemic is forcing many employers—both in startups and in more established companies—to forego the in-person interview that was such a pillar of hiring for so long. Hiring managers are now searching for ways to make the process effective and avoid hiring candidates simply because they show well on Zoom or any other virtual platform. COVID-19 is also creating waves of employee movement in the startup ecosystem. Startups that are contracting or even closing as a result of the economic shutdown are releasing employees back into the labor market, while those in booming sectors are expanding and increasing their hiring efforts. This is creating new challenges when matching people to job vacancies.

Lisa Cohen
Associate Professor, Organizational Behaviour

Based on forthcoming research.

Pension Plans for an Evolving World

The old system of defined benefit pensions won't meet the needs of tomorrow's retirees.



Article: Megan Haynes
Illustration: Kotynski

Retirement has changed. People are living longer, and lower interest rates make investing for the long-haul harder. Fewer young workers are available to back-fill retirement attrition and, suddenly, today's retirees are looking at a world unlike that of their parents.

If companies could once reasonably be expected to offer a pension program that provided a fixed income for the rest of a former employee's life, financial demands and the changing workforce are compelling organizations to shift gears. →

What's more, a handful of very public bankruptcies affecting thousands of pensioners have made companies skittish when it comes to offering retirement programs. For instance, Sears' bankruptcy is causing headaches for its former employees, while Nortel workers have waited years to learn the fate of their pension's shortfall.

Today, most organizations have stopped offering defined benefit programs, opting instead for defined contribution pensions in which companies top-up or match employees' retirement savings, explains Sebastien Betermier, an associate professor of finance at McGill University. Over five short decades the entire world of pensions has shifted dramatically, causing many of tomorrow's retirees to be ill-prepared for their golden years.

"Defined benefits programs force employers to take on all the risks," he says. "Yet defined contribution shifts that risk onto employees, many of whom don't understand enough about investment or aren't saving enough to see them through long retirements. We're shifting between two extreme models, while there might be a more sound solution somewhere in the middle."

Lessons from the Canadian model

First, Betermier makes the case that defined benefits don't need to disappear completely. In what he calls a "uniquely Canadian approach," organizations should look to a number of quasi-public/private funds that have seen tremendous success in recent years, and which are often made up of a homogenous group of employees (e.g. the Ontario Teacher's Pension Plan, the Healthcare of Ontario Pension Plan, and the Canadian Armed Forces Pension Plan).

Each was set up within the past 30 years and has been quicker to adapt to changing demographics than their older counterparts; importantly, they have operated more like a business than a public entity, Betermier says. For starters, this means these organizations have well-established governing bodies that can consider the long term; and these funds tend to pay better-than-average salaries, which makes it easier to attract top talent in the investment industry.

But, most important, because these funds consist of large groups of homogenous employees, they're able to take the long view, often investing in illiquid assets such as real estate or other businesses, which may not yield instantaneous returns yet tend to be cheaper investments that pay out more over the long term.

The size requirement and homogeny are key factors in their longevity, says Betermier, though firms that want to replicate the successes of HOOPP or OTPP shouldn't feel that they're too small or too diverse. Betermier points to a group of small municipalities in Quebec that have pooled their resources and tasked a local asset manager to oversee their investments. "They've created a big player out of a bunch of smaller players," he says.

The hybrid model advantage

The biggest challenge to today's pensions is longevity—simply put, we're living longer than ever before.

For many organizations, their knee-jerk reaction was to shift to defined contributions from defined benefit plans. From an accounting perspective, it's easier to understand exactly how much money needs to be contributed, based on current levels of employment, than to budget given the uncertainty of how long each former employee will live.

But this approach places all the risk on the workforce, Betermier says, and even the staunchest saver can make some bad investments that will leave their long-term retirement fund feeling the pinch.

Instead, Betermier forecasts growth in the popularity of longevity insurance options. The insurance industry has long provided these programs. Traditionally, upon retirement, an employee pays a lump sum to an insurance provider in exchange for a guaranteed-for-life income. Should the person pass away the following year, that money is locked into the insurer's pool.

> "Even if you leave the firm, you'll always have that bit of insurance coverage from the years you worked there.

Companies could (and some already do) offer a similar service. Think of it like health insurance: for an individual, insurance that provides medical and dental services can be costly. Amortized over a large group, it becomes affordable. Betermier is not suggesting that employers put all their retirement plans into this basket. Rather, he suggests they could take a hybrid approach, using these forms of insurance that pay out a set amount each month (akin to benefits) as part of a broader retirement program administered by companies.

"From the employer's perspective, acting as the coordinator for pooled longevity insurance isn't costly—you act as the administrator, while the insurer bears the risk," Betermier says.

This is a particularly effective approach for companies that have fluid workforces, he adds. "It doesn't matter if you stay or leave the firm. You'll always have that bit of insurance coverage from the years you worked there."

Even small changes can have long-term impacts

Regardless of the type of pension planning organizations undertake, the most important thing is to get people to start saving today. But it's hard to get people to think so far down the line about their futures—competing priorities like children, house purchases, and education always seem to take priority.

Part of the solution is nudging employees: Betermier points to a well-cited study which found that having employees opt in to retirement savings plans resulted in poor adoption rates—less than 40 per cent signed up during onboarding. In comparison, when the terms were changed to allow new employees to opt out, adoption skyrocketed, with more than 85 per cent enrolment.

"Today's employees aren't saving adequately for their retirement," he says. "Most retirees are still benefiting from the old system and we've not seen people fail out of the new pension system yet. Companies can play a key role in safeguarding the workforce for the long term before that happens."

The turmoil of the ongoing COVID-19 pandemic may accelerate the demise of current retirement systems. With millions of individuals out of work and dipping into their retirement savings, governments spending billions to rescue their economies, and interest rates near historic lows, the retirement savings shortfall is going to worsen and add pressure to the old system of defined benefit pensions.

In a new study, I explore in depth why large Canadian pension funds have managed to remain well funded in spite of decreasing interest rates and increasing life-expectancy. I show that a central factor driving their success is the implementation of a unique three-pillar business model that consists of (i) managing assets in-house to reduce costs; (ii) redeploying resources to investment teams for each asset class; (iii) channeling capital toward growth assets that increase portfolio efficiency and protect against liability risks. The strong performance of the Canadian model over the past 20 years suggests that it provides a sustainable approach to pension investing.

The years ahead will put the Canadian model to the test as the severe impact of COVID-19 on commercial real estate, stocks, and corporate bonds will undeniably hurt the funds' assets in the short-run. How resilient is the Canadian model when facing a global pandemic? This will be a key question for future research.

Sebastien Betermier
Associate Professor, Finance

Based on forthcoming research.

Walk Away—or Blow the Whistle?

Corporate fraud is behind high board of director turnover

Article: Kathryn Jezer-Morton
Illustration: Jacob Myrick

Over the past two decades, a number of high-profile cases of financial reporting fraud among large firms (Enron, XEROX, and AOL, among others) have led governments and regulators to question how effective existing oversight structures—including boards of directors—are in preventing fraud. If directors serve to provide oversight, how does fraud go unchecked? Do directors with certain characteristics react differently to fraudulent activity? →

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Instead of fixing the problem, directors would just elect to walk away.

Some observers have suggested that, in many cases, outside directors lack the time to familiarize themselves adequately with the firms on whose boards they serve. Perhaps they don't have access to enough quality information to alert them to mismanagement, should any be taking place, or enough incentive to really get to know the company's inner workings.

A new study by Desmond Tsang, an associate professor of accounting at McGill University, and co-authors Yanmin Gao (City University of Hong Kong), Jeong-Bon Kim (University of Waterloo), and Haibin Wu (City University of Hong Kong), presents evidence suggesting that some directors actually know more than perhaps has been acknowledged.

Their study is the first to look at director turnover during fraudulent periods—rather than after the activity was discovered and reported to the public—for clues to whether members of boards of directors are aware of the deceit as it unfolds.

They compare director turnover rates at fraudulent firms during periods of known fraud with those at non-fraud firms. “In doing so, we found that the fraudulent firms' director rates of departure were abnormally high during fraudulent periods,” says Tsang.

This finding suggests that, in some cases, directors are aware of fraud while it's being committed and are either unable or unwilling to assume the role of whistleblower. “This seems to imply that, instead of fixing the problem, [the directors in question] would just elect to walk away,” says Tsang.

If director departures are more common than average during periods of fraud, the researchers also noted three shared characteristics among the cases considered.

More meetings, more information

First, members of boards that met more regularly during fraudulent periods were more likely to depart, indicating that it's not the absence of information—but perhaps the nature of information itself—that compels directors to resign during fraudulent activity.

More departures among women

Women were slightly more likely to resign their directorships during fraudulent periods than men, reinforcing existing scholarship demonstrating that female directors are slightly more risk-averse than their male counterparts and have a tendency to focus more rigorously on ethical standards. Likewise, directors with a higher ownership stake in a company were more likely to depart during fraudulent periods, perhaps indicating a link between these departures and a higher risk of reputational damage.

Degrees of severity

The final characteristic considered was whether the seriousness of the fraudulent activity corresponded to an abnormally high turnover rate. They found positive correlations there, too, indicating that directors are more likely to resign when fraud is more egregious (fictitious transactions, for example) than in less egregious cases, such as incomplete financial reporting.

"We don't know how much these specific reasons would compel directors to leave," remarks Tsang, noting that they did not interview directors about their motivations for leaving. However, he added that there are hard-to-ignore implications concerning why a director would be more likely to resign in cases of severe fraud. "If it's a big fraud, they may lose everything. They might not be a director again down the road."

Weighing the effectiveness of boards

The risk of reputational damage and the threat of litigation have been cited in existing literature as factors that can inhibit directors from taking on the role of whistleblower. Despite recent regulatory changes made by the U.S. Securities and Exchange Commission (for example, the Sarbanes-Oxley Act) that reinforce the importance of outside boards of directors, this new research reinforces the alternative view that outside constraints might be inhibiting boards from functioning as intended.

It appears that, in many cases, directors would prefer to resign from their role rather than address fraudulent practices head-on. This raises some important questions about the general effectiveness of boards of directors. If litigation and reputational damage loom so large, are boards of directors really the most effective oversight instruments?

Conversely, perhaps it's unrealistic in today's highly competitive, post-industrial economic landscape to expect individual directors to be capable of changing a company's fraudulent course. Perhaps a new approach to external corporate governance is needed, one that allows observers to make crucial interventions without putting their careers and reputations on the line.

Damage to one's reputation is a significant motivating factor in director

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Risk of reputational damage and the threat of litigation are factors that inhibit directors from becoming whistleblowers.

departures. Perhaps protecting directors from the threat of litigation would make them freer to intervene in cases of fraud instead of simply departing.

Evidence indicating that abnormal director departures may suggest possible cases of fraud might help regulators develop alternative oversight instruments. Should boards of directors continue to function according to the status quo, perhaps attention paid to the boards themselves could prove useful in preventing fraud in the future.

"There has been a lot of research, which is beyond the scope of our paper, about the inefficiencies of a board. There have been many proposals about improving board governance. Obviously, there needs to be better board monitoring and better board functioning. Our research is adding empirical evidence to an existing call for reform," says Tsang.

If financial fraud is more likely to be committed during turbulent times—when firms are under acute financial pressure—then a rise in corporate fraud in the wake of COVID-19 seems possible.

Will boards of directors play a more crucial role in signalling fraud during this unprecedented time? On the one hand, monitoring could become more essential to deter and detect a firm's fraudulent behaviour. On the other, directors may be obliged to focus on a firm's survival, which may lead them to neglect their duty to monitor.

In this context, one thing is clear: effective boards are needed more than ever, as companies are under extreme pressure to perform and are more likely to resort to earnings management to achieve their targets.

Given our findings, coupled with how women leaders have handled the pandemic with aplomb on a global stage, achieving greater gender diversity on boards seems to be a way forward.

Desmond Tsang
Associate Professor, Accounting

Based on the research article: "Go Before the Whistle Blows: An Empirical Analysis of Director Turnover and Financial Fraud"

The Hidden Cost of Corporate Tax Havens

Companies with tax haven headquarters are less likely to advance social causes

Article: Ty Burke
Illustration: Jacob Myrick

Walgreens is one of America's most powerful brands. Founded in 1901, the midwestern pharmacy chain even claims to be the birthplace of an American classic, the malted milkshake. Today, over 9,000 Walgreens pharmacies fill over 1 billion prescriptions each month—and bring in nearly $130 billion in annual revenue. →

But, in 2014, the company considered stashing these profits beyond the reach of the IRS. By acquiring Boots Alliance—a British pharmacy chain that is headquartered in Switzerland for tax purposes—Walgreens reached the threshold of 20 per cent foreign ownership, qualifying the company to move its headquarters out of the United States.

By making Boots Alliance's Swiss mailbox into its nominal headquarters, Walgreens would have saved approximately $4 billion in taxes in the first five years alone. Politicians were outraged; consumers threatened boycotts.

More than 300,000 Americans signed a petition demanding that Walgreens not "desert America." Facing potential consumer backlash and political ramifications, the company decided to abandon its plan.

> **“Research has shown that when top executives have prior legal infractions, their companies are more likely to commit fraud.**

When taxes go, CSR does too

But if Walgreens had successfully moved its headquarters to Switzerland, tax revenue isn't the only thing that Americans would have lost.

New research from McGill University's Dongyoung Lee, an assistant professor of accounting, shows that when companies move their headquarters to lower-tax jurisdictions, they invest less in corporate social responsibility (CSR) activities.

This means that charities making improvements in health care, education, or the environment can expect to receive far fewer donations from companies that relocate their headquarters to a tax haven.

"There is an underlying assumption that when companies make use of a fiscal paradise, they are not doing much for the community. But that was an untested assumption. When I looked at the data, it showed that companies really did contribute less, despite having more tax savings," says Lee.

There is also the prevailing belief that firms reincorporating in tax havens will engage in more CSR initiatives to rebuild their image or safeguard against further criticism. But, according to the data, this is not actually happening—at least not in the United States.

"U.S. firms offer an interesting example since they are generally allowed to relocate their corporate tax residence without shifting their primary place of business—essentially by changing their mailing address," Lee explains.

Lee examined 138 firm years of 46 U.S. corporations that had their headquarters in tax havens between 2004 and 2013. These companies were compared with a control sample of 211 firms that had their headquarters in the U.S. during the same period. The study considered major firm characteristics such as size, cash holdings, and industry, and measured their philanthropic giving.

Firms with their headquarters in a tax haven were shown to give significantly less to charity, and that being headquartered there was the main explanatory variable for the discrepancy.

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The world is changing: CEOs need to care about non-financial stakeholders, too.

More is more

Companies that evade taxes through fiscal paradises will rely on various justifications to avoid moral condemnation. A common argument in such cases is that lower corporate taxes will lead to increased charitable giving, which can enable the improved delivery of social services.

"In most cases, when a corporation engages in tax inversion, they say that they are doing it to create shareholder value. They want to increase the value of the stock, which will be good for the firm. That may be true, but the non-financial stakeholders can suffer," states Lee.

Upending business as usual

Lee suspects that a business culture that places shareholder value above all else is largely to blame. For several decades, North American business schools have lionized the free-market thinking of economists like Milton Friedman. A generation of executives has been trained to pursue maximum profit at almost any cost.

In the aftermath of the 2008 financial crisis, the importance of training a new wave of business leaders that embodies a more socially and environmentally responsible approach to management has become paramount.

"The world is changing," Lee says. "Business schools once taught students that when they become CEO, they work for shareholders—and that's the way it is. But now we are teaching students that CEOs need to care about non-financial stakeholders, too."

And within a corporation, change at the top is critical. The characteristics of CEOs and senior managers play an outsized role in setting the tone for a corporation's overall culture.

"Research has shown that when top executives have prior legal infractions, their companies are more likely to commit fraud," Lee explains.

"So if they personally engage in tax avoidance, the firms that they oversee are more likely to avoid taxes. An organization's culture is set by its leadership, and the top managers have a cascading effect on the whole organization. If the CEO says we only need to make money for the shareholders, then lower-level managers are going to think about how to make money for the shareholders, and not about the greater good," he concludes.

A stakeholder-oriented culture plays an important role in corporate social engagement. Recently, corporate philanthropy has increased exponentially in response to the pandemic and its economic fallout. *The Economist* reports that the money raised to overcome the impact of COVID-19 is almost four times greater than the sum collected during the past four disasters combined, including the financial crisis of 2007–09. In particular, as of late April, U.S. corporations contributed about $3.1 billion through donations and foundation programs, accounting for 58 per cent of the total charitable grants obtained to fight COVID-19, according to Candid. Moving forward, firms with a culture that champions the interests of non-financial stakeholders are likely to lead the way in our post-pandemic global relief efforts.

Dongyoung Lee
Associate Professor, Accounting

Based on the research article: "Corporate Social Responsibility of U.S.-listed Firms Headquartered in Tax Havens"

How to Optimize Project Oversight

Governments and businesses require lots of checks and balances. Here are three ways to make scrutiny more efficient.

Article: Megan Haynes
Illustration by: Dalbert B. Vilarino

Holding someone accountable is no simple undertaking. Oversight is a necessary part of doing business but it's cumbersome, requires resources, and is riddled with paperwork. It costs money and time, and can be complex and trying. But is there a way to make the process better—less frustrating and time-consuming—for all parties involved? →

Four in ten public infrastructure projects in the U.S. report delays or budget overruns. Now, new research proposes tangible ways for governments to hold their contracted service providers accountable and to keep these projects on track.

To explore the impact of external scrutiny on a company's ability to deliver projects on-time and on-budget, Juan Serpa, an associate professor of operations management at McGill University, and his co-authors Eduard Calvo (University of Navarra) and Ruomeng Cui (Emory University), took a closer look at government contracts that fell above and below the oversight threshold of $150,000 (in the U.S., contracts with budgets of less than $150,000 are scrutinized less than those exceeding this amount). The results, they found, are widely applicable.

While there may not be a single, all-encompassing technique to make scrutiny less cumbersome, Serpa and his co-authors find that companies and government agencies can make simple adjustments to improve the efficiency of their checks and balances. The key is to be flexible and open to innovation.

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The key is to be flexible and open to innovation.

Experience matters

If companies and government offices want to ditch oversight entirely because it's too labor-intensive, they should instead consider hiring fresh faces to complete their projects.

It's easy to assume that inexperienced contractors require a lot of hand-holding. But many new partners consider their first assignment a way to prove themselves. They will put their best foot forward, which usually means projects will be completed within agreed-upon timeframes and budgets.

"In contrast, once you're in, you're in," Serpa says. "And companies who've been working with the government for a long time get better at knowing how to navigate the loopholes."

With less pressure to win the next bid, experienced organizations are more likely to find ways of getting around the established system, sometimes to the detriment of the project.

On the other hand, when held to external scrutiny, companies with more years of experience were still more likely to complete their work on-time and on-budget.

Not only does oversight keep a company more honest, but the more an organization deals with various checks and balances the better it gets at the task, which improves efficiency. Practice, it seems, makes perfect—at least when it comes to paperwork.

While it is likely impossible for organizations to only hire new faces (years of experience should also be taken into consideration), gradually scaling up oversight can help providers become familiar with the process. “This approach serves as a safeguard. Should contracted providers get overly complacent, there’ll be a system in place to help them stay on track,” explains Serpa.

Broaden the field

Companies and government agencies interested in improving the efficiency of oversight also need to look at how many firms competed for the contract in the first place.

Projects that received many bids tended to do better without checks and balances than those receiving only a handful. Serpa says this makes sense because, when there are a number of options to choose from at the early stage, a vendor who is effective and works independently will most likely be picked.

In contrast, when a project receives few bids, not only is the pool of candidates much smaller but the winning vendor often has less motivation to “exceed expectations.” Projects that attract fewer bids may be undesirable, or there may be only a handful of vendors able to fulfill the contractual demands, which means that the winning candidate often thinks there’s no need to impress as much to win the next bid.

In such cases, added layers of oversight can help address these issues.

Rethink the contract

It can be difficult to rethink our approaches to oversight. However, one of the most effective ways of ensuring that projects are completed on-time and on-budget is to reconsider how contracts and payments are designed.

In a comparison of fixed-price contracts (e.g. $150,000 to complete the project, regardless of how long it takes or how much material is needed) and time-and-material contracts (e.g. $4,100 a month plus the cost of materials over an estimated three years), those without fixed compensation took 45 per cent longer to complete, almost doubling the projected cost.

Adding oversight to the mix helped mitigate some of these issues, but the reality is that implementing a fixed price is simply a better way of ensuring that projects finish on-time and on-budget. “We found even with oversight, time-and-materials contracts still ended up, on average, with a 25 per cent time delay,” adds Serpa.

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Oversight can evolve, be improved upon, and can change for the better.

For organizations that want to eliminate oversight altogether, Serpa finds that performance-based incentives can be just as effective as the more traditional checks.

"This is purely conjecture, but oversight has its own inefficiencies," says Serpa. "There's a lot of paperwork, you're reporting all the time. It slows people down. When you add in another incentive for organizations to do the best job possible—like a rewards program—that paperwork becomes redundant."

In the end—whether it's creating an oversight system that caters to the specific experience level of a partner, tailoring a pitch to encourage more bids, or reworking the contract to focus on end results—it's important for both governments and private organizations to understand that oversight isn't a static, unchanging process. Instead, there is room for innovation.

"One size doesn't fit all," Serpa says. "Oversight can evolve, be improved upon, and can change for the better.

In the post-pandemic world, the importance of government has shifted drastically. Even the fiercest libertarians have yielded to the much-needed intervention of public regulators, which has become indispensable in the reconstruction of our economy. This means that the near future will see an avalanche of public projects, all of which will be financed through public budgetary expenditures that are now becoming scarce. In my research, I examine how to make these projects efficient. I study the effect of government oversight on public works or, in particular, how oversight affects project delays and cost overruns. My results show that fine-tuning the degree of regulatory oversight goes a long way in making these projects speedy and cost-efficient, without sacrificing quality.

Juan Camilo Serpa
Associate Professor, Operations Management

Based on the research article: "Oversight and Efficiency in Public Projects: A Regression Discontinuity Analysis"

Do Club Stores Promote Healthier Eating?

Marketers can encourage healthier shopping among warehouse store customers

Article: Kathryn Jezer-Morton
Illustration: Jacob Myrick

The serious health consequences of unhealthy eating are widely known. According to a 2012 study published by the World Economic Forum, unhealthy diets account for approximately 63 per cent of deaths worldwide. After years of warnings from researchers and medical professionals alike, policymakers around the world are seeking solutions—and food marketers are emerging as key players in reversing some of these troubling health trends. →

A recent paper by Yu Ma, an associate professor of marketing and Bensadoun Scholar at McGill University, and co-authors Kusum L. Ailawadi (Dartmouth College) and Dhruv Grewal (Babson College), identifies a "club store effect," which they describe as a series of unintended health consequences of shopping at warehouse club stores. The paper goes on to recommend several "nudges" that club stores can implement that might help consumers make healthier choices when buying and consuming food at home.

"I love club stores—I think they are fantastic retailers and they offer very good, quality products," says Ma, describing his motivation for embarking on this study. "They sell these muffins that I really like, but I noticed that I struggle to finish the box before the expiration date—so I eat more of them than I normally would."

Ma suspected that his behaviour wasn't unusual. Maybe, he thought, the incentives to shop at warehouse stores (i.e. bulk packaging, lower prices in exchange for paying a membership fee) have an impact on the resultant dietary choices of consumers. The research team set out to conduct a data analysis on the shopping habits of warehouse store members and non-members, and what they found was revealing.

Defining the "club store effect"

The researchers found that club store shoppers consume more packaged foods than those who don't buy in bulk, a behaviour that holds significant implications for consumer health since packaged foods are typically higher in calories, fats, and sugars than fresh or perishable foods.

The availability of good deals on packaged food is part of what drives consumers to spend more in that category, in addition to factors like the sunk cost of membership (which compels consumers to spend more to make the cost of membership a worthwhile investment) and the sunk cost of increased travel time to and from club stores (which are typically located farther from residential areas).

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“That mentality of, ‘I have to get my money’s worth if I’m spending this time and money on membership’ is a reasonable one, but in the end, you’ll just go there more often and buy more. That’s the kind of consumer behaviour I find fascinating,” says Ma.

Shoppers who join club stores often do so for the savings and for the time-saving opportunity to buy storable items in bulk. However, the researchers found that the money shoppers save at club stores is often spent on “impulse” purchases, most of which are “treats”—in other words, the savings translate into more unhealthy food purchases. Moreover, it appears that when consumers buy a higher volume of packaged food they eat it faster, rather than storing the food and consuming it at the same rate they would if they were shopping at a local grocery store.

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A new approach to nudges for warehouse stores

Nudges, a concept that originated in the field of behavioural economics, are aspects of a set of options that subtly influence people’s behaviour in a particular direction without reducing their choices. Positioning healthy food at eye level is a nudge, but banning unhealthy foods is not. When thoughtfully designed and executed, nudges can have wide-ranging impacts on consumer behaviour.

The nudges outlined by Ma and his co-authors are designed to mitigate the “club store effect” while providing club store marketers with the advantage of emphasizing the healthy, sustainable orientation of their products.

The team offers a few recommendations for nudges that club store marketers could employ to improve the diet quality of their customers’ shopping carts. For instance, data indicates that buying fresh fruit and vegetables in bulk is less convenient for many shoppers who worry that they won’t consume the larger quantities fast enough. One solution is to bundle a few different fresh produce items within the same packaging as a “variety pack,” which would enable households to get smaller amounts of several products while still enjoying the savings of buying in bulk. Another recommended nudge is to make packages of higher-sugar and higher-fat products slightly smaller, while slightly increasing the packaging of products with a healthy nutritional profile.

Plenty of incentive for marketers

Ma is confident that warehouse retailers will be open to adopting nudges like the ones they suggested. “Food marketers have to do something; the market is changing and people are demanding different things,” he says. “They have to adapt to sustain business growth. For warehouse stores, maybe their priority is price and quality right now, but soon it will have to move to health. I think it might take some time to get to the ideal state, but health, well-being, and sustainability are among the most popular buzzwords right now [in grocery marketing].”

In fact, Ma is already trying to implement some of these nudges himself. “Instead of muffins, I’ll buy a big box of salad; this forces me to eat more salad—or make healthier choices—before the item is past its expiration date!”

COVID-19 has shifted consumer behaviour, particularly among club store shoppers. As many consumers reduce the frequency of their outside activities, club stores provide an ideal way to buy large quantities of food and other essentials in a single trip and at a discount. It is, therefore, unsurprising that retailers like Costco have posted strong sales gains and have seen a nearly 100 per cent increase in e-commerce sales during the pandemic. This retail format will likely continue to thrive as club stores develop greater pick-up and e-commerce capacities.

Faced with declining incomes, consumers are also allocating money toward essentials instead of discretionary goods. At the same time, they are hyperaware of their health and safety. Shoppers may, therefore, be more compelled to make healthier food choices, particularly when shopping online where the temptation to purchase junk food is less palpable. With renewed focus on e-commerce, club stores have an opportunity to reimagine how they nudge shoppers toward healthier food choices.

Yu Ma
Associate Professor, Marketing
Bensadoun Scholar

Based on the research article: “The Club Store Effect: Impact of Shopping in Warehouse Club Stores on Consumers’ Packaged Food Purchases”

Desautels
Faculty of Management
McGill University

1001 Sherbrooke Street West
Montreal, Quebec
H3A 1G5 Canada

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