

Leading Digital Business Transformation: Innovation Streams, Executive Leadership, and Ambidexterity

Global Empowerment Meeting
October 2014
Professor Mike Tushman
Harvard Business School



H A R V A R D | B U S I N E S S | S C H O O L

What Do These Firms Have In Common?

GM

ATT

Apple

Kodak

Marks & Spencer

RIM

SSIH/Asaug

Lego

Blockbuster

Britannica/Encarta

Ciba-Geigy

U.S.Steel

Nokia/Motorola

NYPD

Polaroid

Siebel

RR Donnelley

IBM

Xerox

EMI (OK Go)

Nike

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NYPD

Polaroid

Siebel

RR Donnelley

IBM

Acer?

Havas/V&S?

NASA?

In the past few years...



BEAR
STEARNS



LEHMAN BROTHERS



SANYO



FORTIS
BANK

Solid partners, flexible solutions.



The Royal Bank of Scotland



...and more to come?

What's Gone Wrong With H-P?

A Lengthy Turnaround Plan Will Require CEO Stability, Responsible Spending and Refresh of Products

BY BEN WORTHEN

In 2010, Hewlett-Packard Co.'s then-chief executive Mark Hurd boasted the company was "the largest IT company in the world" and said "we are still not to our full potential."

Two years and two CEOs later, H-P is stumbling. Over that time, the Palo Alto, Calif., company's market capitalization has fallen to less than \$30 billion from more than \$100 billion. On Friday, H-P's shares hit a new 10-year low.

Current CEO Meg Whitman has said H-P—which sells tech products including personal computers, printers, servers and consulting services—is now saddled with outdated products, poor internal processes and has "no silver bullets" for a rebound. She predicts profits will fall again next year and that H-P won't achieve meaningful growth until at least 2015.

An H-P spokesman said the company has a turnaround plan and has "put a strong leadership team in place," among other moves.

Here's a look at H-P's problems, and how the company plans to fix them:

Bleeding Ink | Comparing Hewlett-Packard's business five years ago and today

2007

REVENUE
+13%

\$5.1
BILLION PROFIT

LONG-TERM DEBT
\$4.9
BILLION

PRICE-EARNINGS RATIO
25x
(as of Dec. 28)

Note: Revenue, profit and debt are for first nine months of each fiscal year. Revenue change is from previous year. P-E ratio is for past 12 months, normalized EPS.



2012

REVENUE
-5%

\$5.8
BILLION LOSS

LONG-TERM DEBT
\$24.1
BILLION

PRICE-EARNINGS RATIO
5.5x
(as of Nov. 5)

Sources: the company; S&P Capital IQ; WSJ Market Data; Bloomberg News (photo); The Wall Street Journal

RIM: Leading yesterday's business?



*“We are a very secure,
entrenched business”*

Thorsten Heins
CEO, Research in Motion

The New York Times

© 2013 The New York Times

MONDAY, JANUARY 7, 2013

Students Rush to Web Classes, But Profits May Be Much Later

By TAMAR LEWIN

MOUNTAIN VIEW, Calif. — In August, four months after Daphne Koller and Andrew Ng started the online education company Coursera, its free college courses had drawn in a million users, a faster launching than either Facebook or Twitter.

The co-founders, computer professors at Stanford University, watched with amazement as enrollment passed two million last month, with 70,000 new students a week signing up for over 200 courses, including Human-Computer Interaction, Songwriting and Gamification, taught by faculty members at the company's partners, 33 elite universities.

In less than a year, Coursera has attracted \$22 million in venture capital and has created so much buzz that some universities sound a bit defensive about not leaping onto the bandwagon.

Other approaches to online courses are emerging as well. Universities nationwide are increasing their online offerings, hoping to attract students around the world. New ventures like Udemy help individual professors put their courses online. Harvard and the Massachusetts Institute of Technology have each provided \$30 million to create edX. Another Stanford spinoff, Udacity, has attracted more than

a million students to its menu of massive open online courses, or MOOCs, along with \$15 million in financing.

All of this could well add up to the future of higher education — if anyone can figure out how to make money.

Coursera has grown at warp speed to emerge as the current

VIRTUAL U.

Building a Model

leader of the pack, striving to support its business by creating revenue streams through licensing, certification fees and recruitment data provided to employers, among other efforts. But there is no guarantee that it will keep its position in the exploding education technology marketplace.

"No one's got the model that's going to work yet," said James Grimmelman, a New York Law School professor who specializes in computer and Internet law. "I expect all the current ventures to fail, because the expectations are too high. People think something will catch on like wildfire. But more likely, it's maybe a decade later that somebody figures out how to do it and make money."

For their part, Ms. Koller and

Continued on Page A10

Worldwide Watch Production

Number of Firms and Workers in the Swiss Watch Industry, 1950-1985

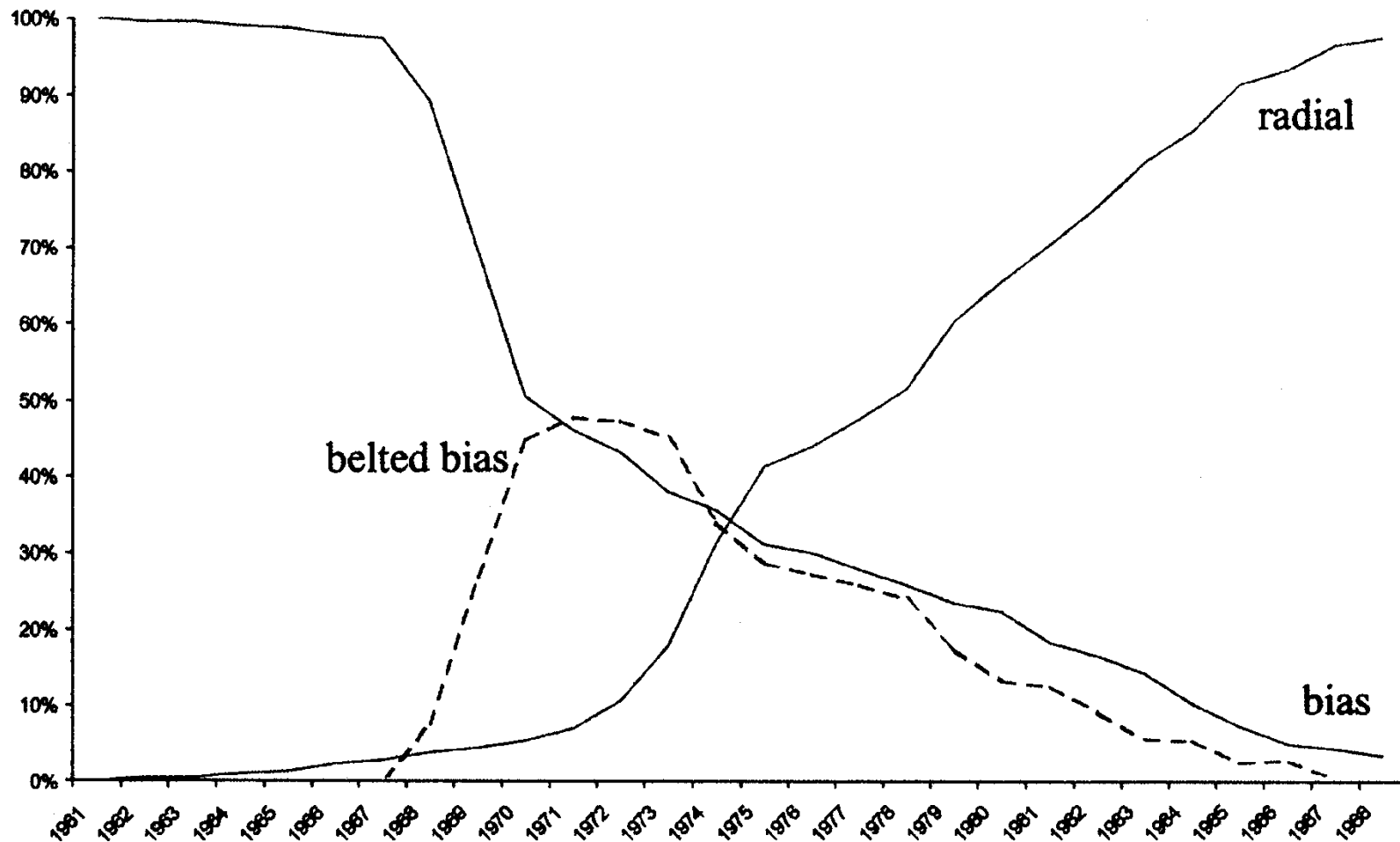
Year	Number of Firms	Employees
1945	2,500	80,000
1950	1,863	60,239
1955	2,316	70,026
1960	2,167	74,216
1965	1,927	83,922
1970	1,618	89,448
1975	1,169	62,567
1976	1,083	55,182
1977	1,021	54,825
1978	979	52,669
1979	867	46,716
1980	861	46,998
1982	730	38,200
1985	600	32,000

Export of Watch Movements and Completed Watches, 1951-1980 (thousands of units)

Year	Japan	Switzerland
1951	31	33,549
1955	19	33,742
1960	145	40,981
1965	4,860	53,164
1970	11,339	71,437
1975	17,017	65,798
1980*	68,300	50,986

*Includes movements

Percentage of Tires Shipped by Construction Type: 1961-1989

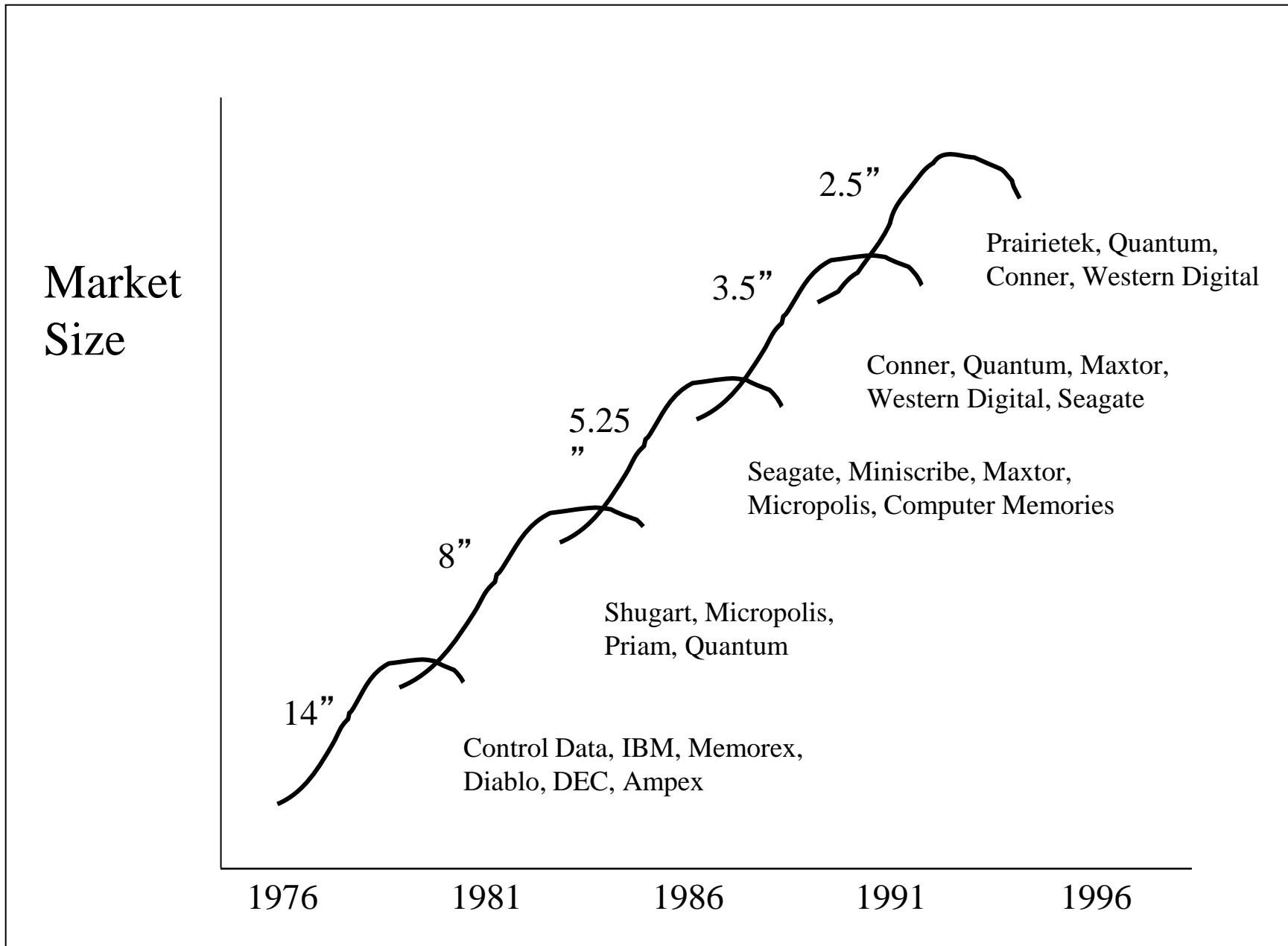


Sources: Rubber Manufacturers Association, "Tire Shipments by Construction," *Tire Industry Facts* (Akron, Ohio, 1990); Firestone Tire & Rubber Company, "Sales Forecasts," Corporate Archives (Akron, Ohio, 1980).

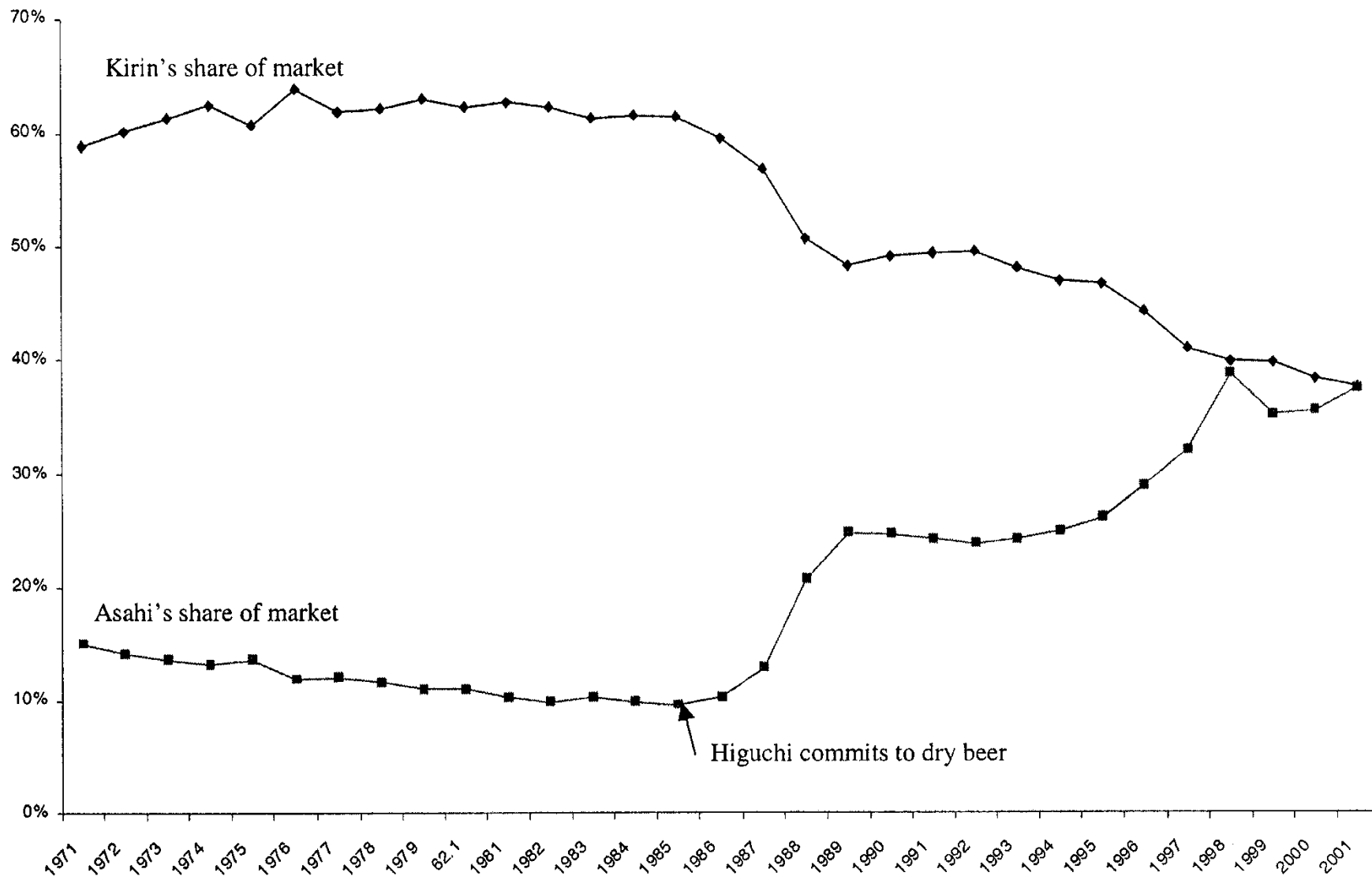
Citation:

Sull, Donald. "The Dynamics of Standing Still: Firestone Tire & Rubber and the Radial Revolution," *Business History Review*, 1999, pp. 430-464.

Disk Drive Industry Evolution: 146 firms founded; 125 failures



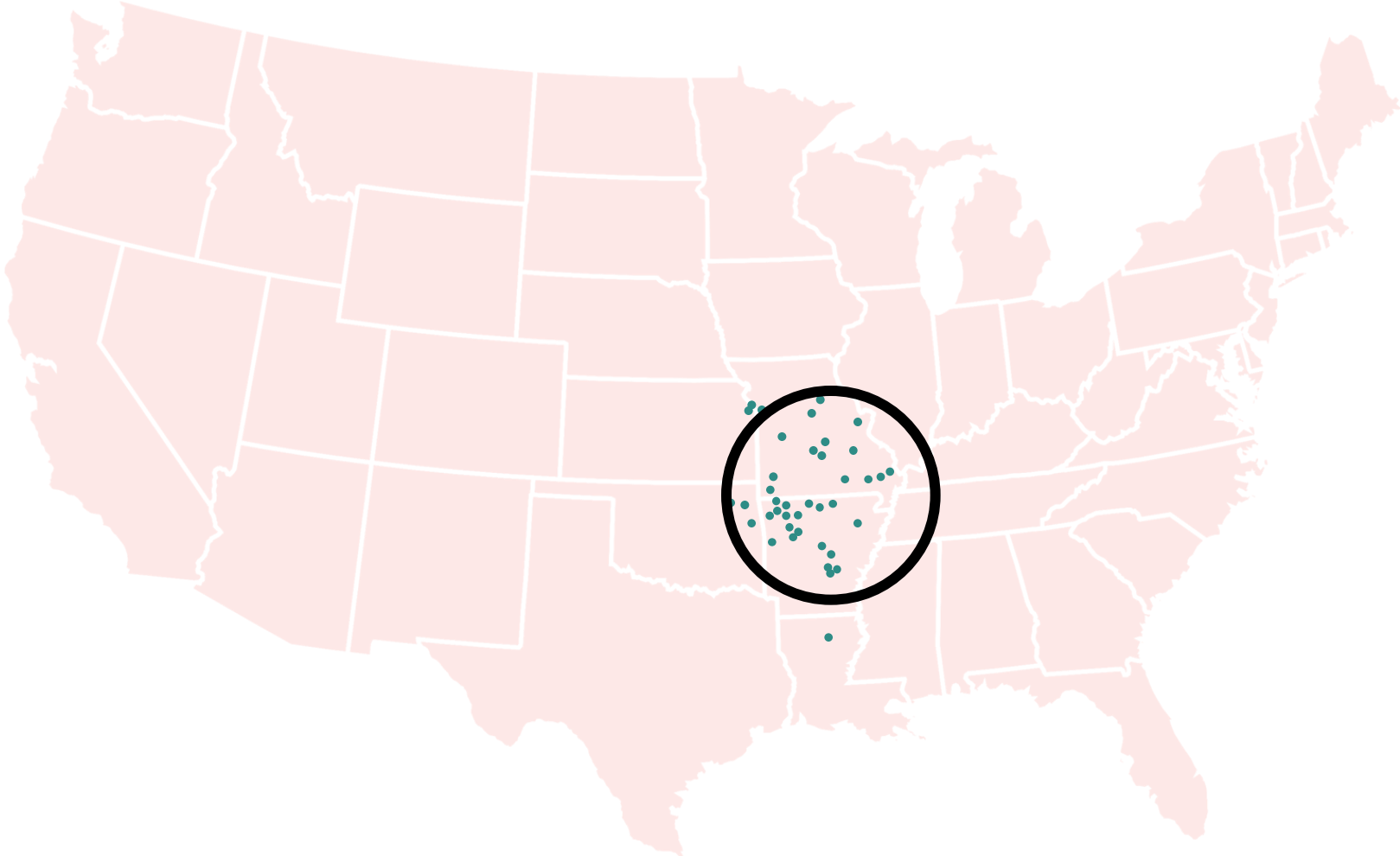
Kirin and Asahi share of Japanese Beer Market: 1949 – 2001



Source: Timothy James, *Resource development in firms: New product development and organizational change in the Japanese brewing industry*, University of Washington, 1992: table 5.8. *Nikko Weekly*.

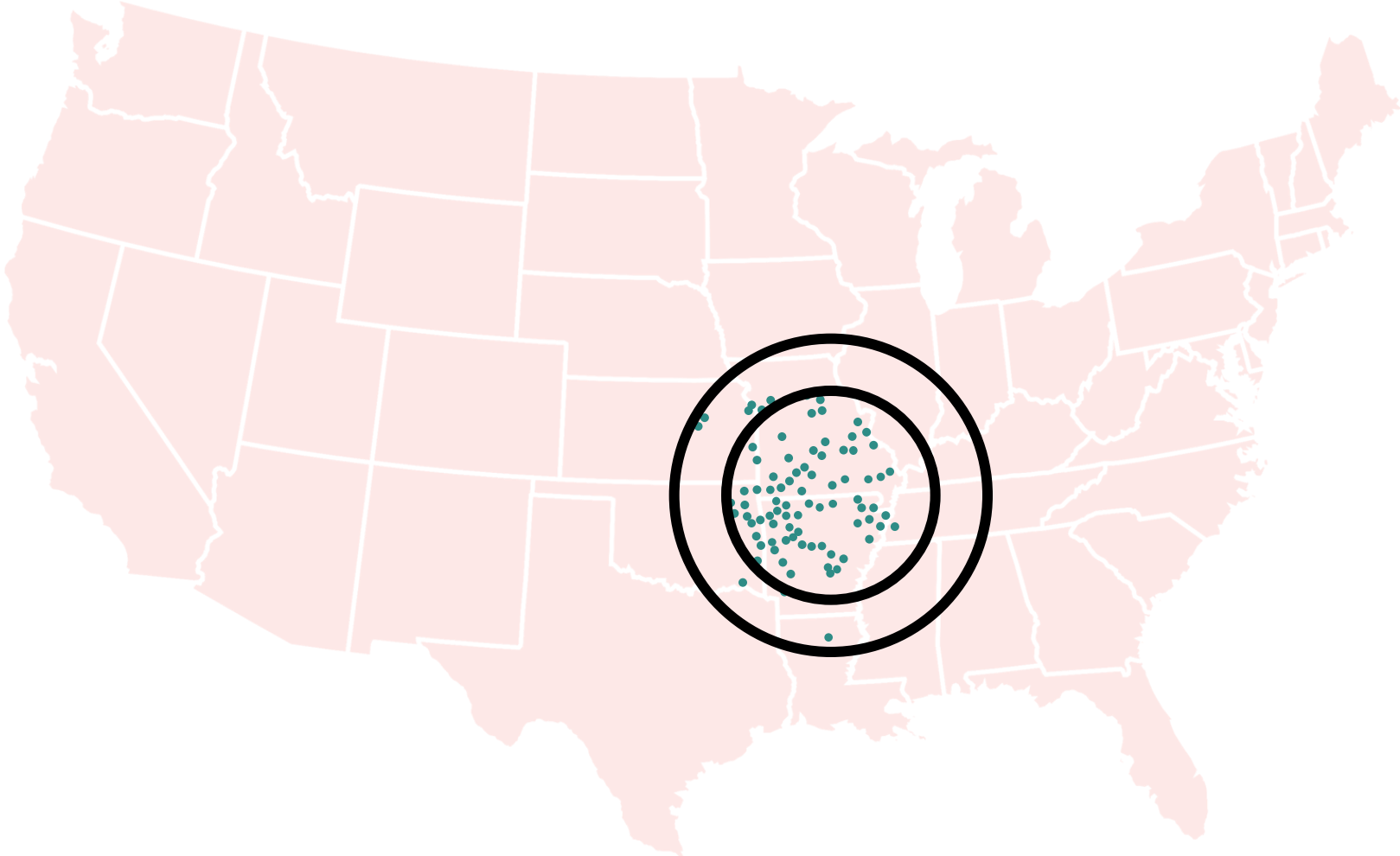
The Wal-Mart Tsunami

1971



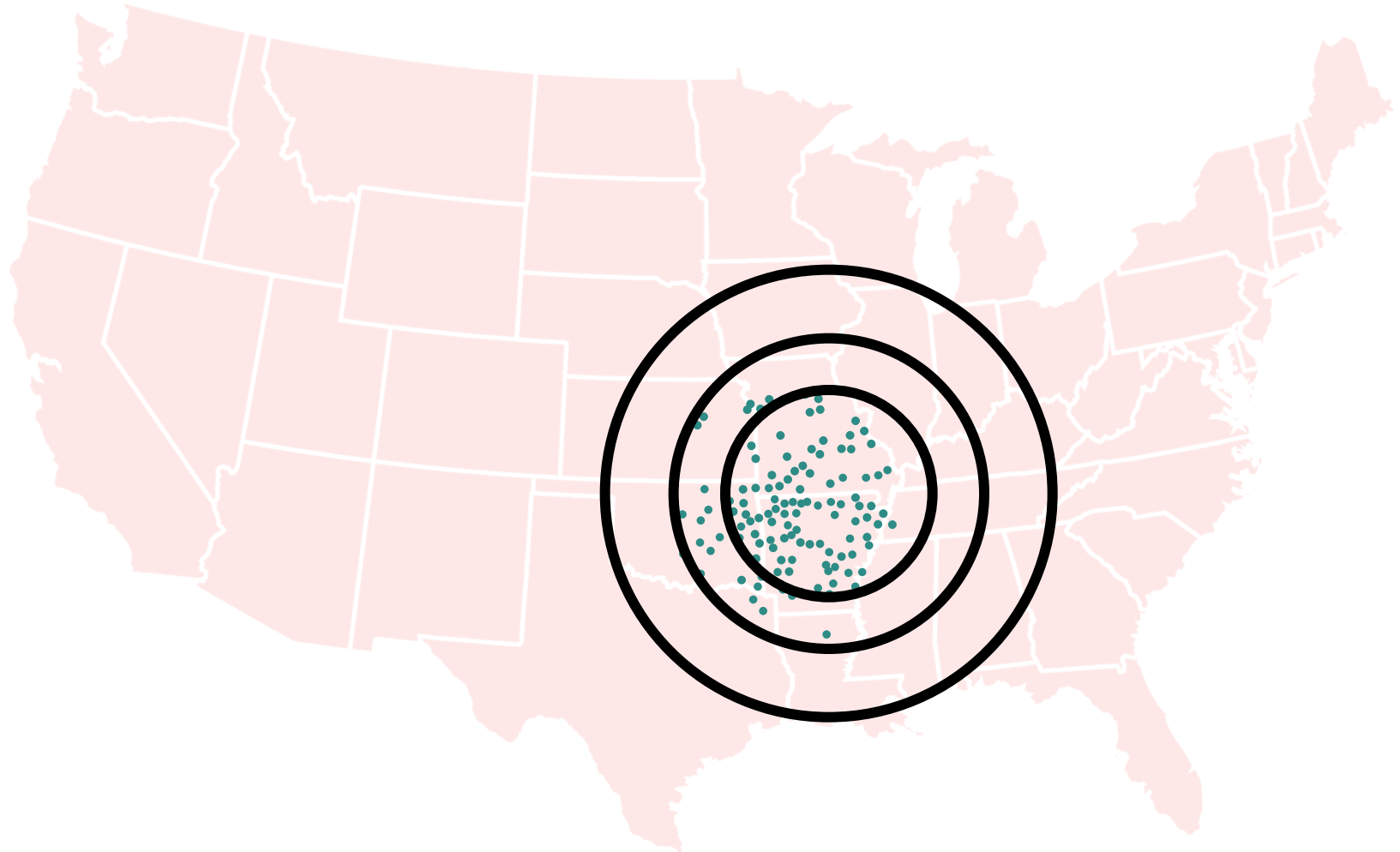
The Wal-Mart Tsunami

1974



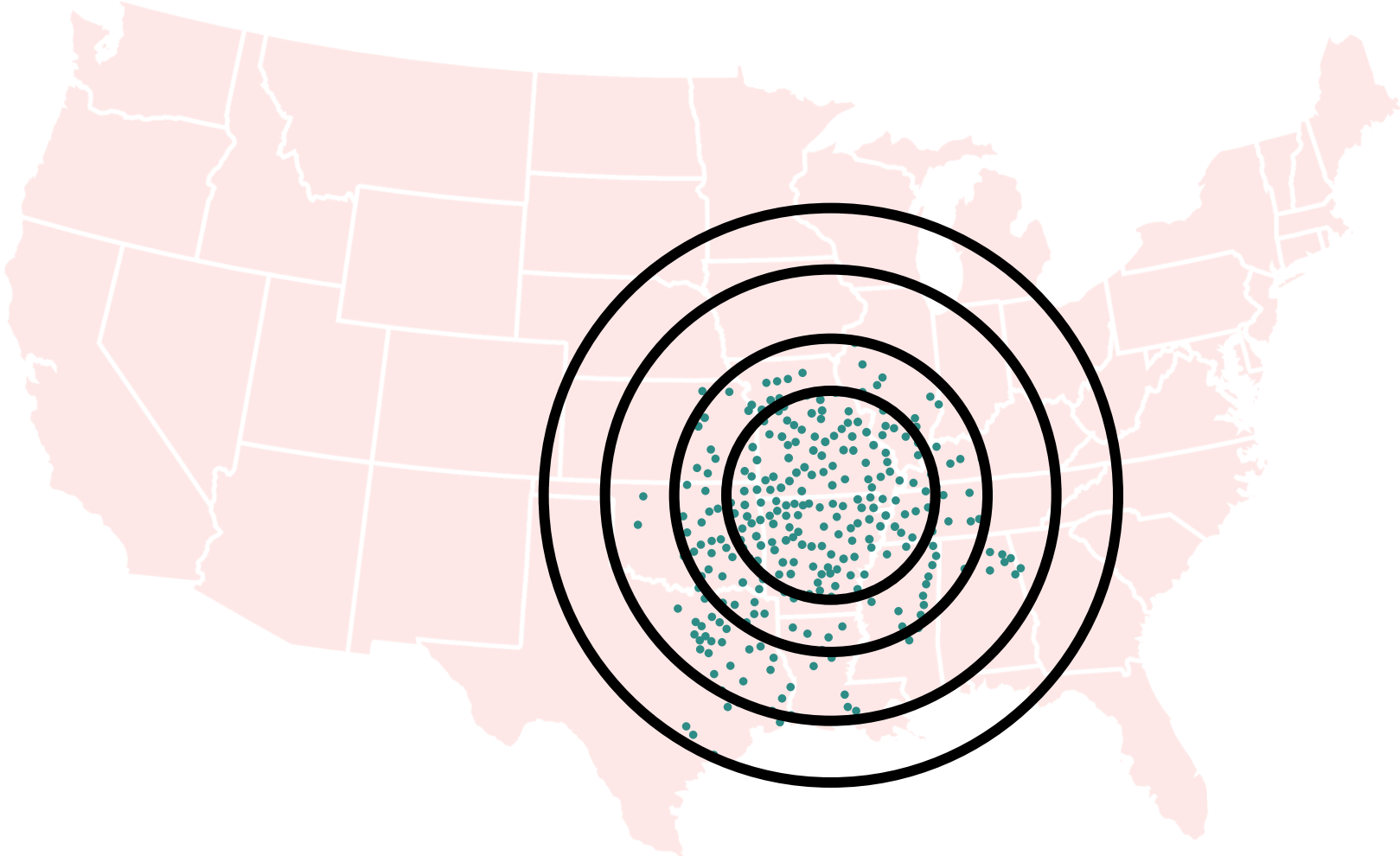
The Wal-Mart Tsunami

1977



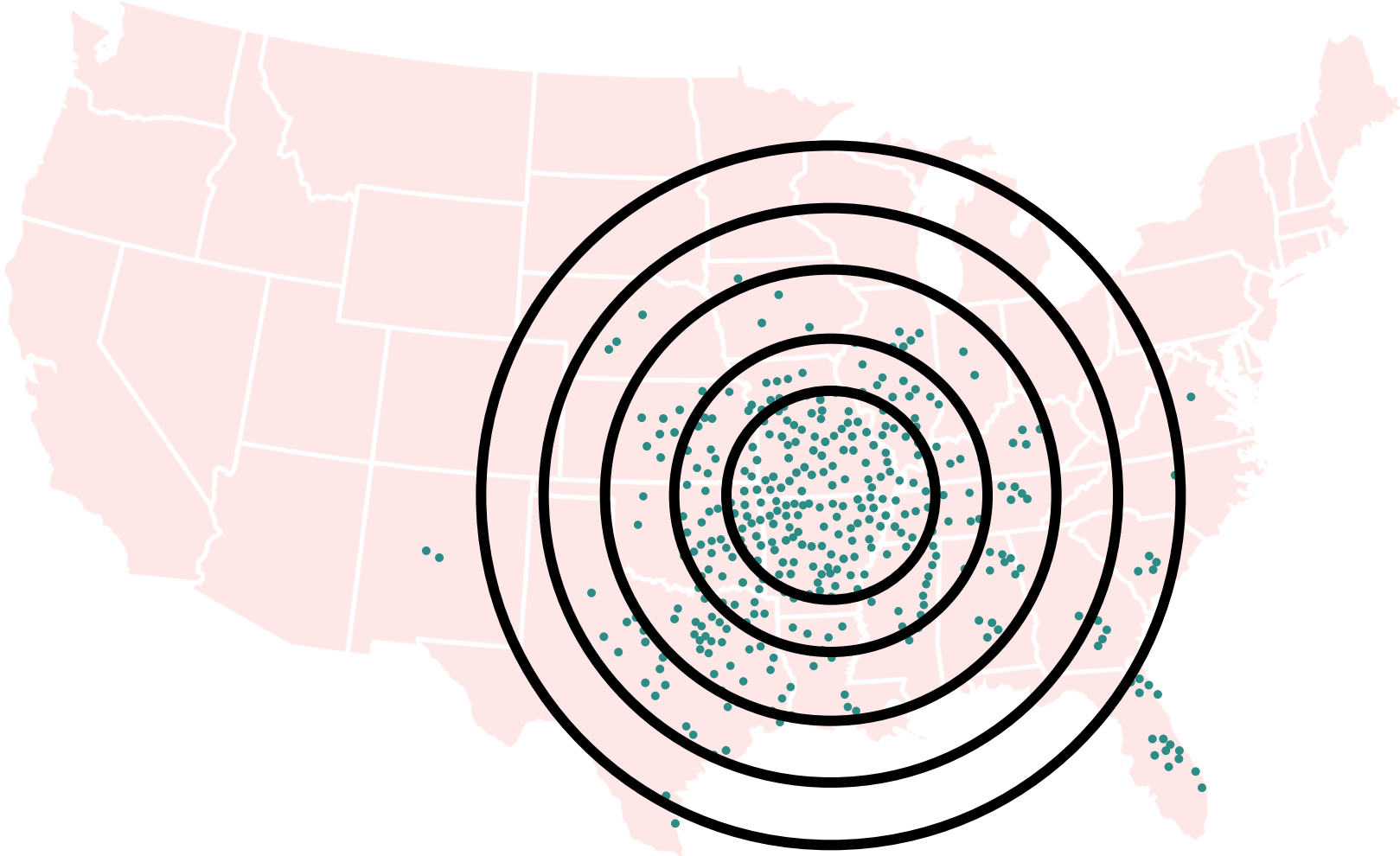
The Wal-Mart Tsunami

1981



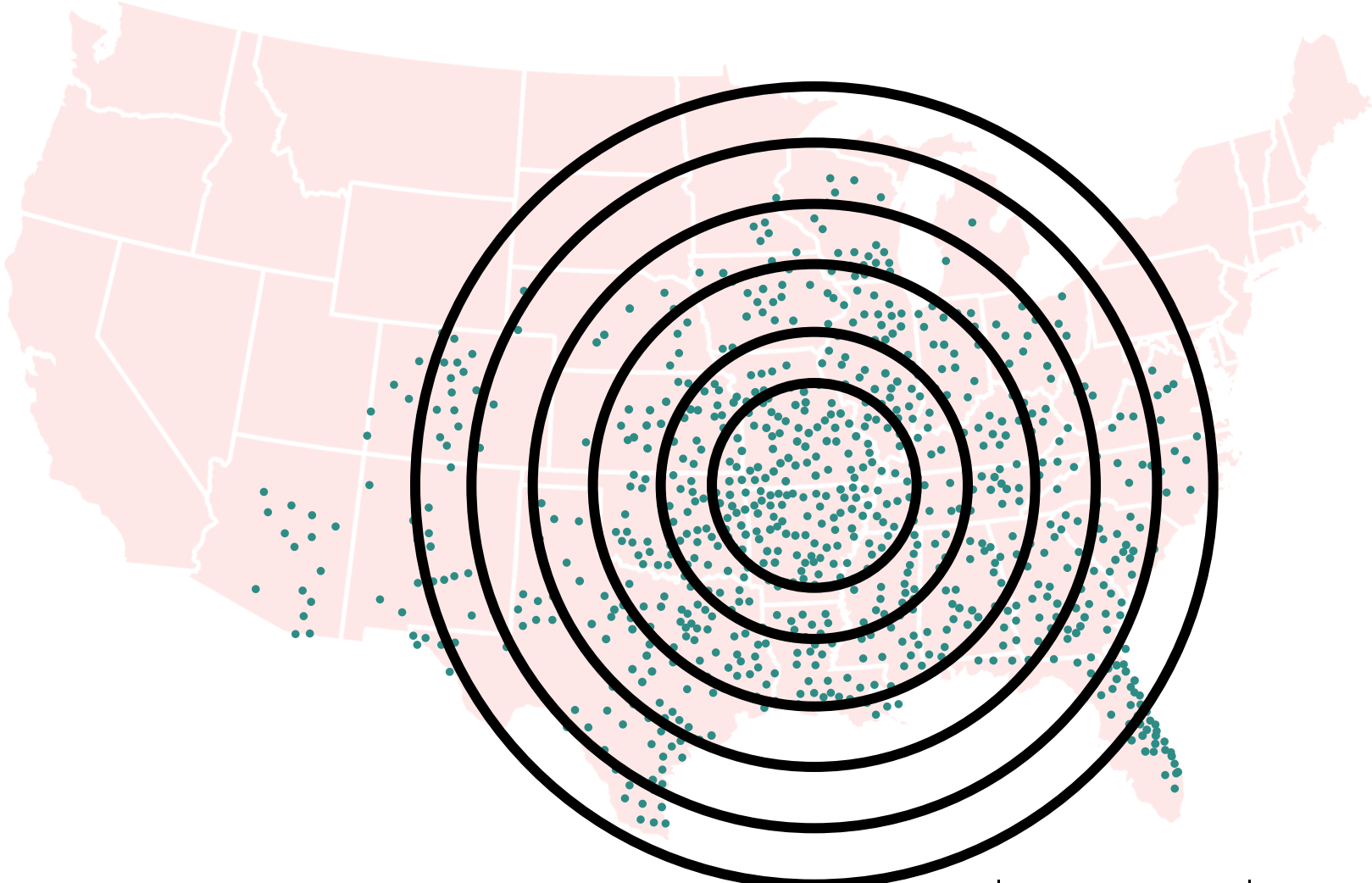
The Wal-Mart Tsunami

1985



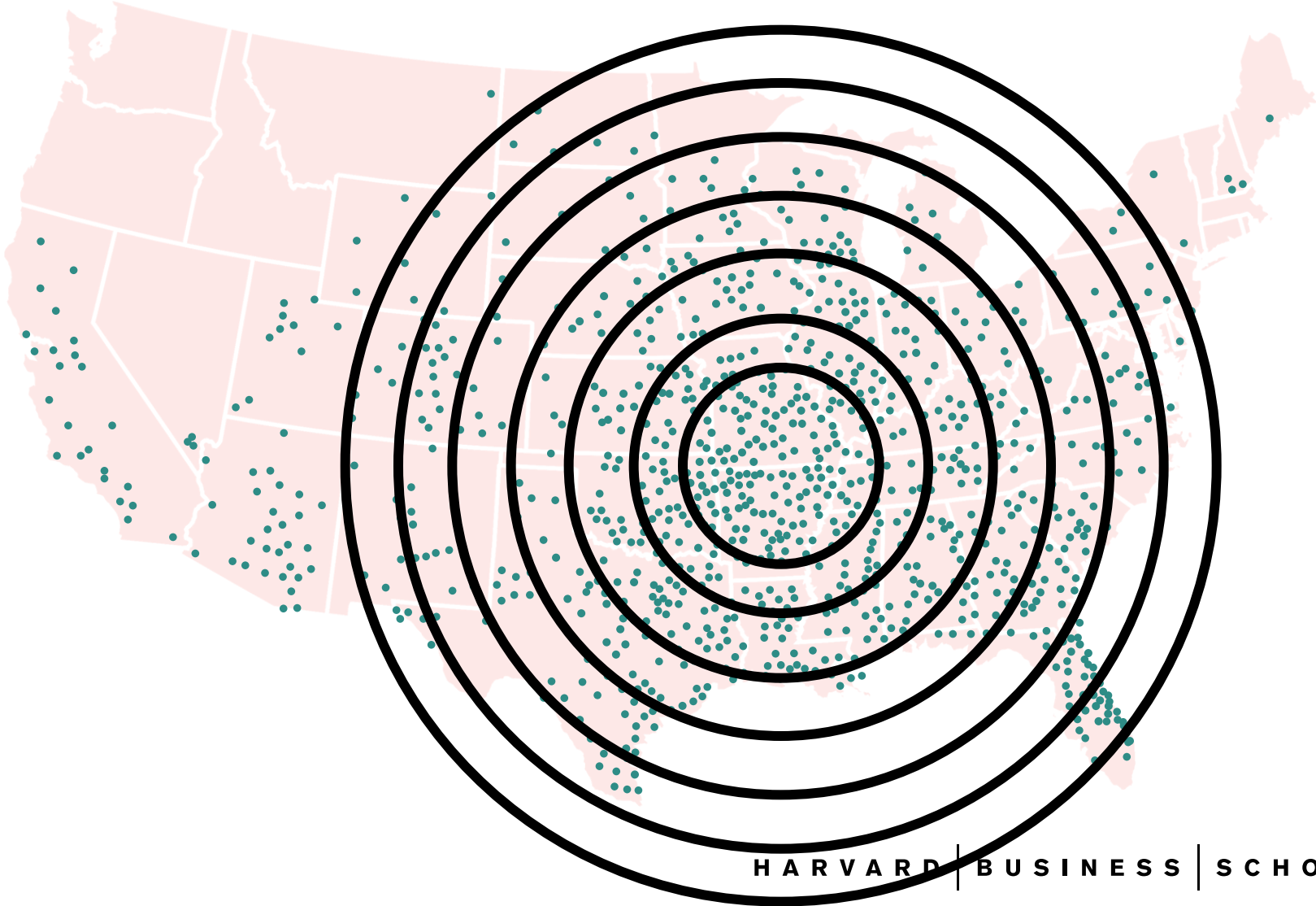
The Wal-Mart Tsunami

1990



The Wal-Mart Tsunami

1992



The Wal-Mart Tsunami

2004



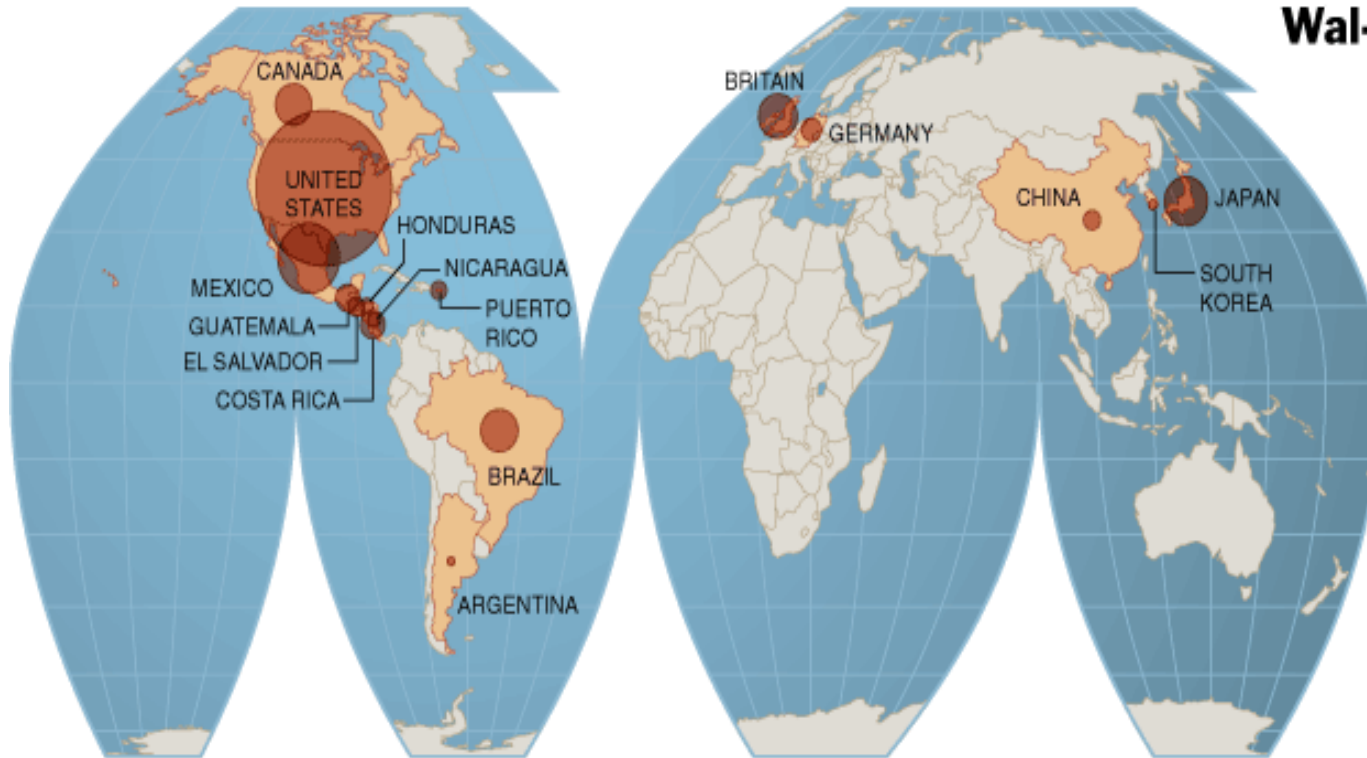


Goals

1. Enable corporate capacity to build 300 stores per year
2. Deliver 1st 1,000 stores

Wal-mart's World

August 1, 2006



Wal-mart's World

More than 175 million people shop at Wal-Mart locations around the world, but as the chain's plans to withdraw from Germany this week illustrate, not all its ventures yield success.



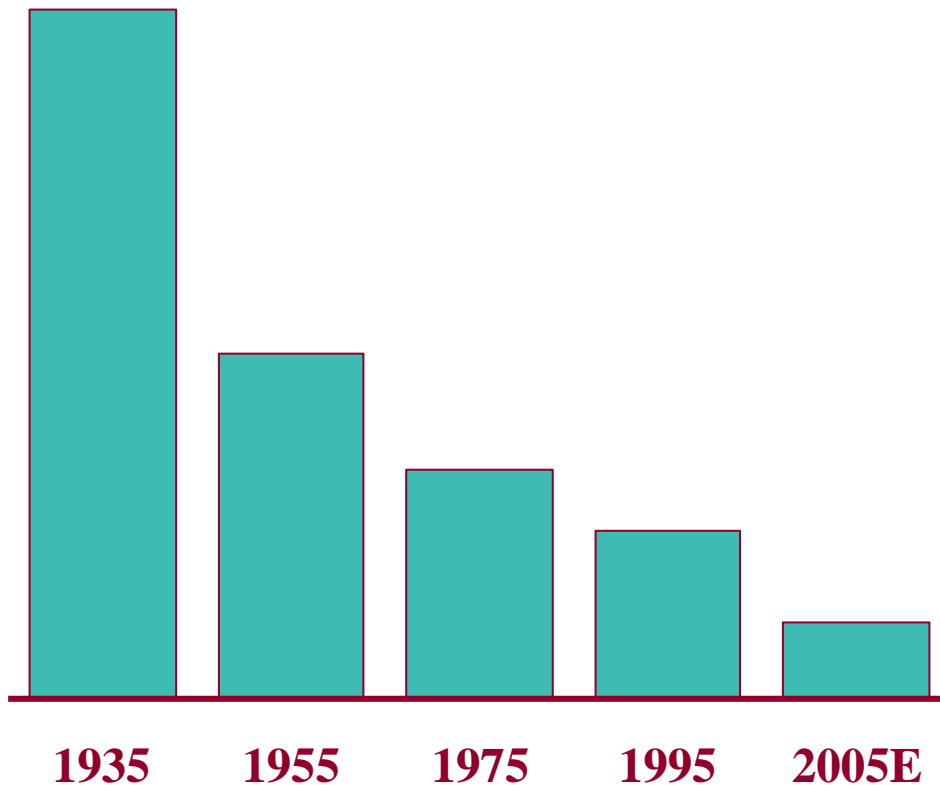
Source: the company

The New York Times

© 2006, The New York Times Co.

Defenders Eventually Lose

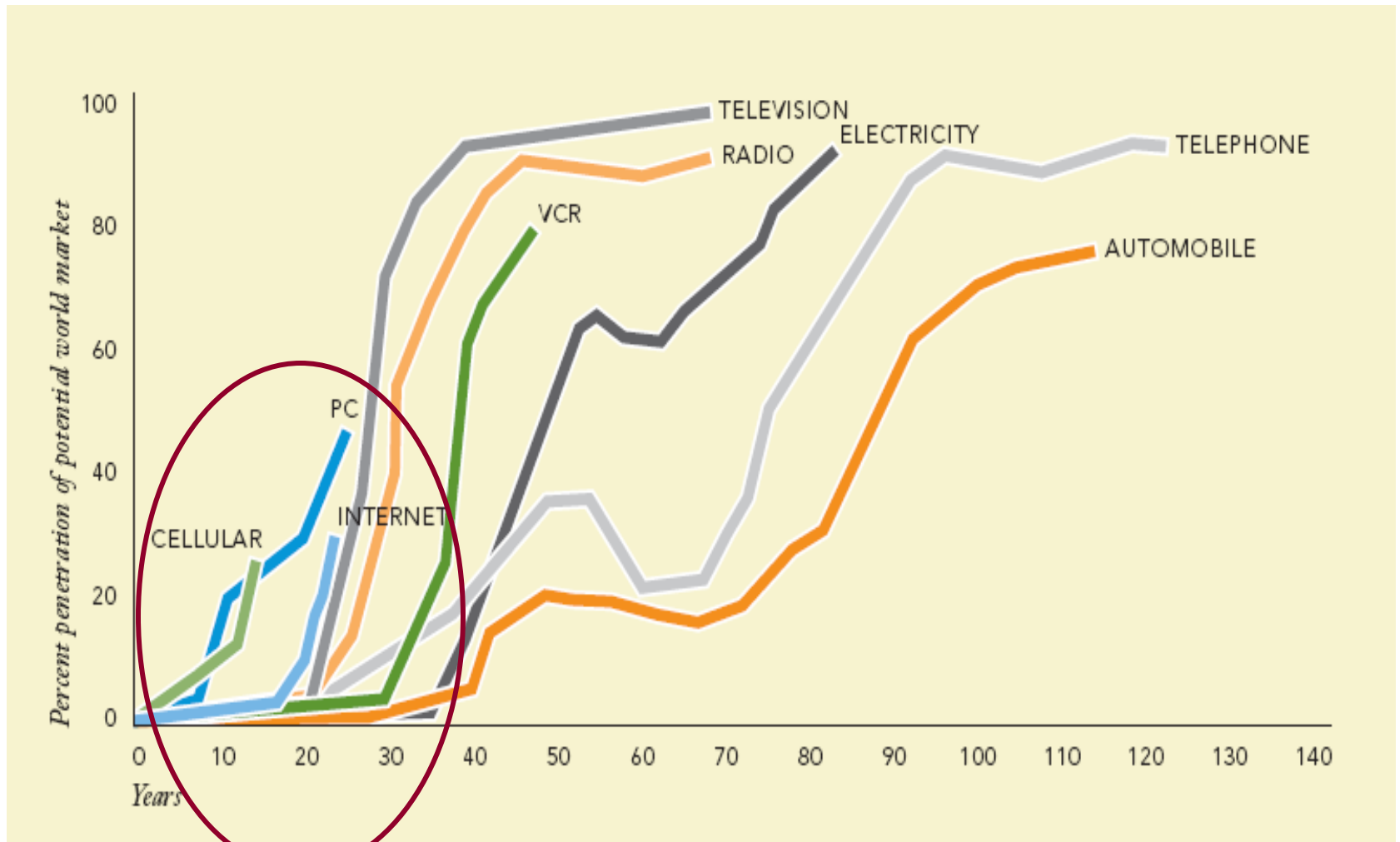
Expected years in S&P 500



Many Pathologies...

- Cultural lock-in
- Blindness to disruptive technologies
- Strategic-operational imbalance
- Limitations of operating organization
- Low genetic diversity

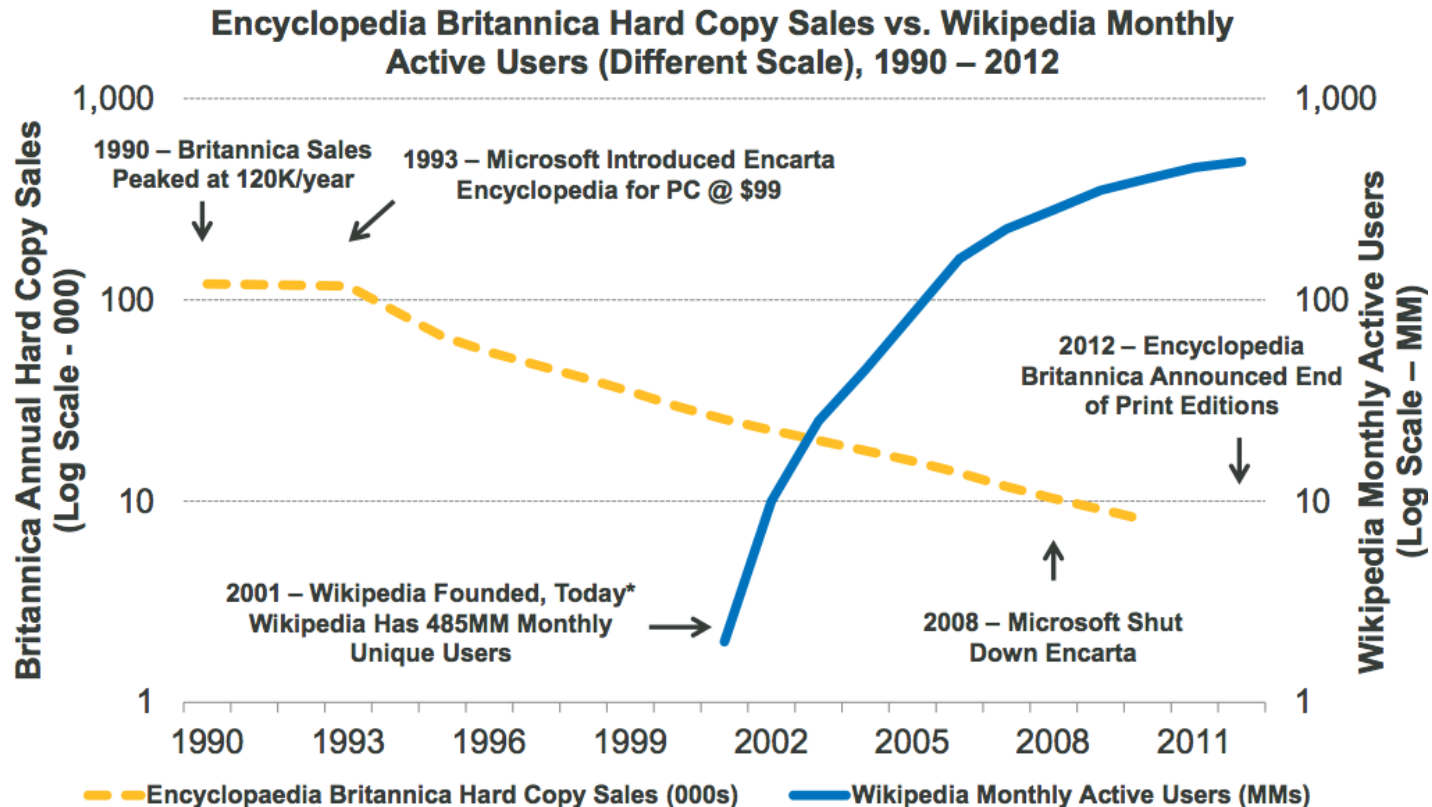
The Pace of Change is Increasing



Source: IBM's Global Innovation Outlook, Joseph Jacobsen, Organizational and Individual Innovation Diffusion, 2004

The Encyclopedia Britannica Story

244 Years In, Encyclopedia Britannica Went Out of Print in 2012



KPCB

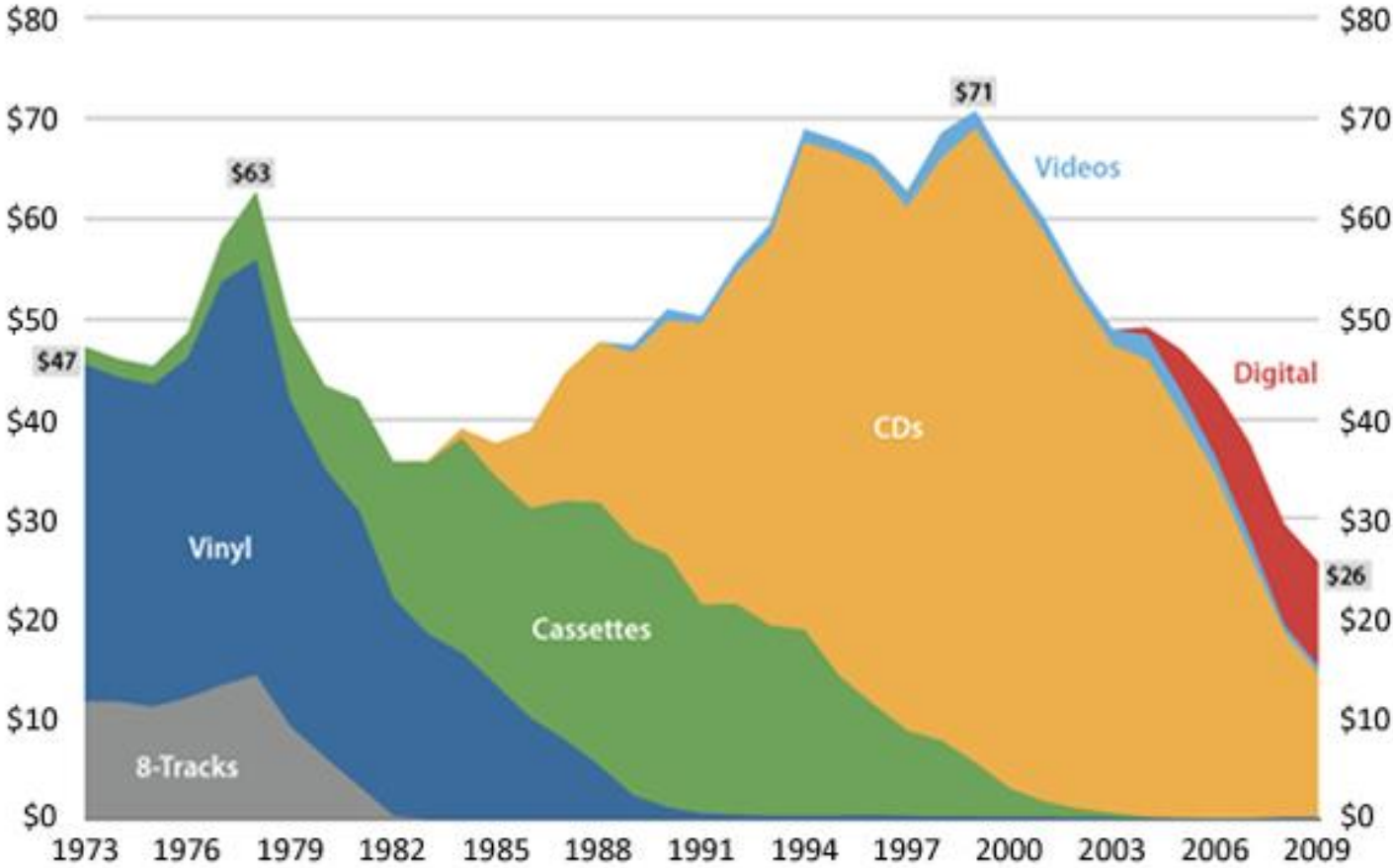
Source: Kellogg School of Management, Shane Greenstein and Michelle Devereux, "The Crisis at Encyclopedia Britannica." Note: *as of 9/12, per comScore global data.

OK Go Goes Viral





U.S. Recorded Music Revenue - 2011 Dollars Per Capita

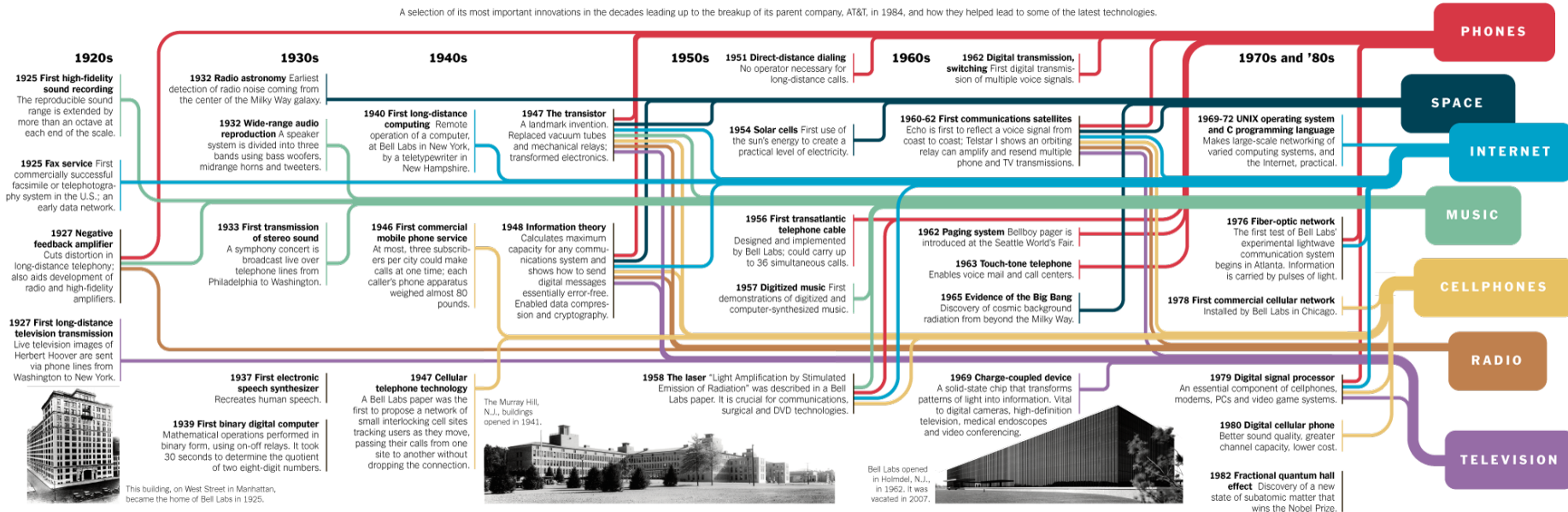


Source: Recording Industry Association of America; Analysis; Michael DeGusta (Feb 2011)

Bell Labs

Bell Labs: A Hive of Invention

A selection of its most important innovations in the decades leading up to the breakup of its parent company, AT&T, in 1984, and how they helped lead to some of the latest technologies.

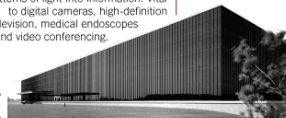


This building, on West Street in Manhattan, became the home of Bell Labs in 1925.

Source: Alcatel-Lucent



Bell Labs opened in Holmdel, N.J., in 1962. It was vacated in 2007.



BILL MARSH/THE NEW YORK TIMES

LEFT AND CENTER PHOTOS COURTESY OF ALCATEL-LUCENT USA INC. AND THE AT&T ARCHIVES AND HISTORY CENTER; RIGHT PHOTO: EZRA STOLLER/ESTO

NASA Pavilion on InnoCentive

NASA Innovation Pavilion



Welcome to the **NASA Innovation Pavilion**, which provides Solvers the opportunity to develop innovative solutions to the unique challenges faced by NASA in achieving its mission to pioneer the future of space exploration, scientific discovery, and aeronautics research. Solutions to these challenges will not only benefit space exploration, but may also further the development of commercial products and services in the fields of health and medicine, industry, consumer goods, transportation, public safety, computer technology, and environmental resources.

[Johnson Space Center](#)

[Langley Research Center](#)

[Glenn Research Center](#)

Centers Participating in the NASA Innovation Pavilion

**Johnson
Space
Center**

The Johnson Space Center has been home to all U.S. human space flight programs. Our scientists and engineers are engaged in research and technology development projects encompassing human health and performance, life sciences, and aerodynamics, mechanical, electrical, industrial, propulsion, chemical, and computer engineering. We are seeking new and creative ideas to enable our success as we venture beyond low Earth orbit and further explore the universe.

PAUSE

InnoCentive Pilot: Challenge Data and Statistics

Challenge Title	Ctr	Posted	Deadline	Proj Rms	Sub	Award Date	Award Amount
Improved Barrier Layers ... Keeping Food Fresh in Space	JSC - SLSD	12/18/2009	2/28/2010	174	22	5/7/2010	\$11,000
Mechanism for a Compact Aerobic Resistive Exercise Device	JSC - SLSD	12/18/2009	2/28/2010	564	95	5/14/2010	\$20,000
Data-Driven Forecasting of Solar Events	JSC - SLSD	12/22/2009	3/22/2010	579	11	5/13/2010	\$30,000
Coordination of Sensor Swarms for Extraterrestrial Research	LRC	2/27/2010	4/26/2010	423	37	6/4/2010	\$18,000 (3)
Medical Consumables Tracking	GRC	5/17/2010	7/27/2010	365	56	in progress	\$15,000 (3)
Augmenting the Exercise Experience	JSC - SLSD	5/27/2010	7/27/2010	229	18	9/20/2010	\$10,000
Simple Microgravity Laundry System	JSC - EA	5/27/2010	7/27/2010	598	108	9/21/2010	\$7,500

2900 Solvers – 80 Countries



Ad Agency Video



Lego

Self organized brick design

Mindstorm: components and software



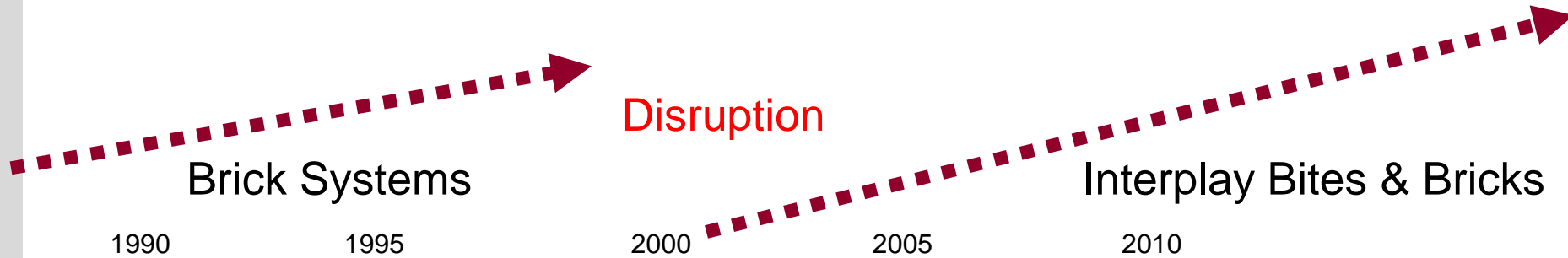
Emerging New Product Identity Challenges: Existing Organizational Identity

Organizational identity

Dominant closed & introverted

Subcultures: "Wild Men"

Fans: "Shadow Market"



Emerging new product identities
LEGO Mindstorms: LEGO gives fans "the right to hack"

Adult Fans of LEGO (AFOL) generated on-line/off line communities

Antorini, 2008
Schultz et al. 2005



THE MYTH OF CORPORATE REINVENTION

The key is knowing when to give up—and just spin off the sexier parts of the business

XEROX

► **OPERATING CASH FLOW** \$1.2 billion last year, mainly from copiers

► **PINNING HOPES ON** Printing

► **PROGNOSIS** Xerox sees growth in low-end printers and high-end publishing systems. But it needs results soon. It just suffered its first quarterly loss in 16 years and had to draw on its bank line of credit

AT&T

► **OPERATING CASH FLOW** \$11.6 billion last year, mainly from consumer long distance

► **PINNING HOPES ON** Broadband fixed and wireless connections to consumers and businesses

► **PROGNOSIS** Unclear whether AT&T can move its long-distance customers onto new cable TV-based network. Customers are defecting to Baby Bells

EASTMAN KODAK

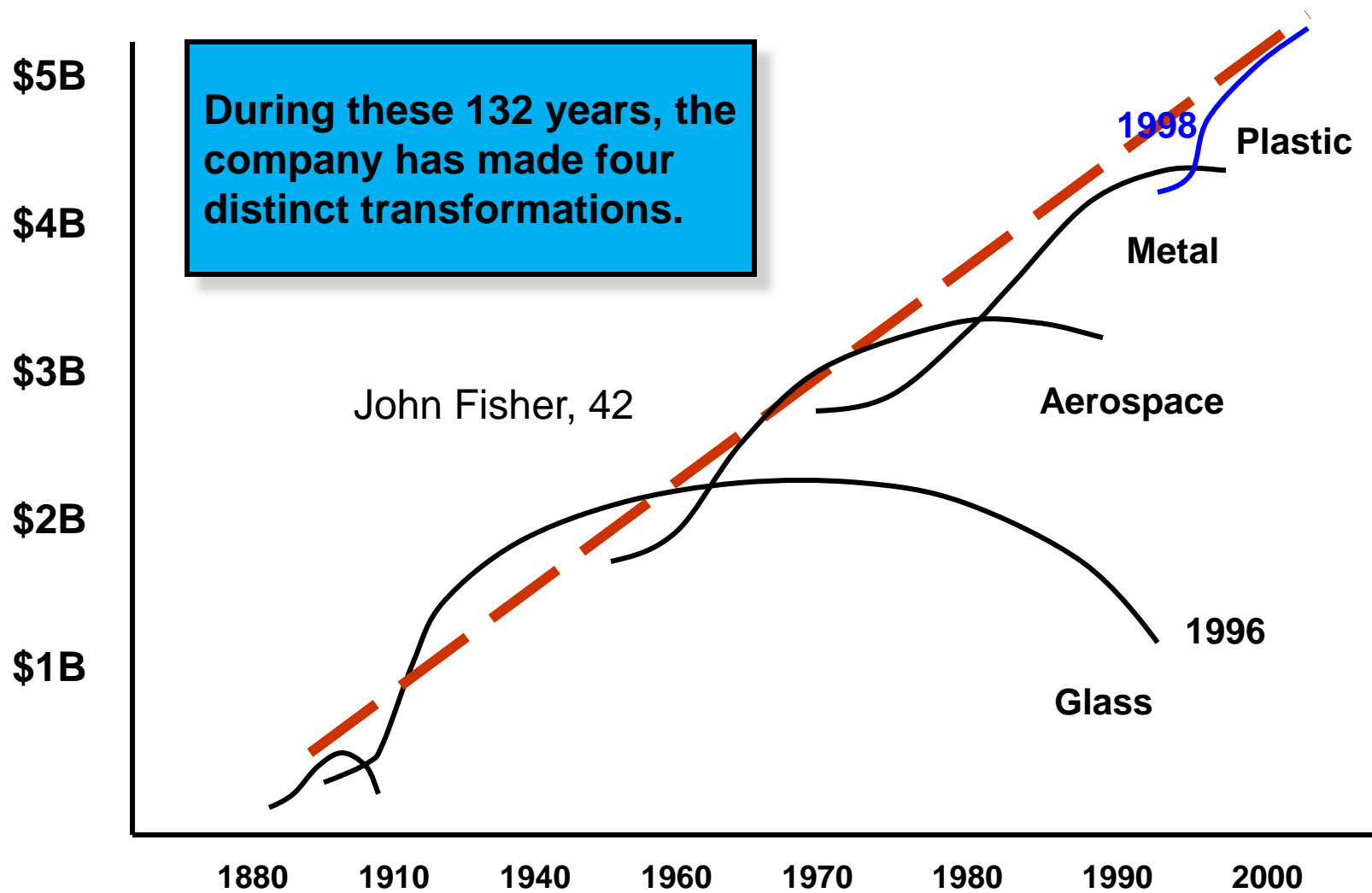
► **OPERATING CASH FLOW** \$1.9 billion last year

► **PINNING HOPES ON** Digital photography, including prints

► **PROGNOSIS** Kodak hopes digital photography will represent half its revenue and a quarter of profits by 2005. But it's having trouble making money in a market marked by low profit margins and short product cycles



Ball Corporation



John Fisher, 42

1998 Plastic

Metal

Aerospace

1996

Glass

Charles Darwin



“It is not the strongest of the species that survive, nor the most intelligent, but the one that is most responsive to change.”

“Those who live by the sword... will be shot by those who don’t.”

Why Do Winners Become Losers?

- **Not A New Phenomenon**
- **Common Across Industries**
- **Seen Around The World**

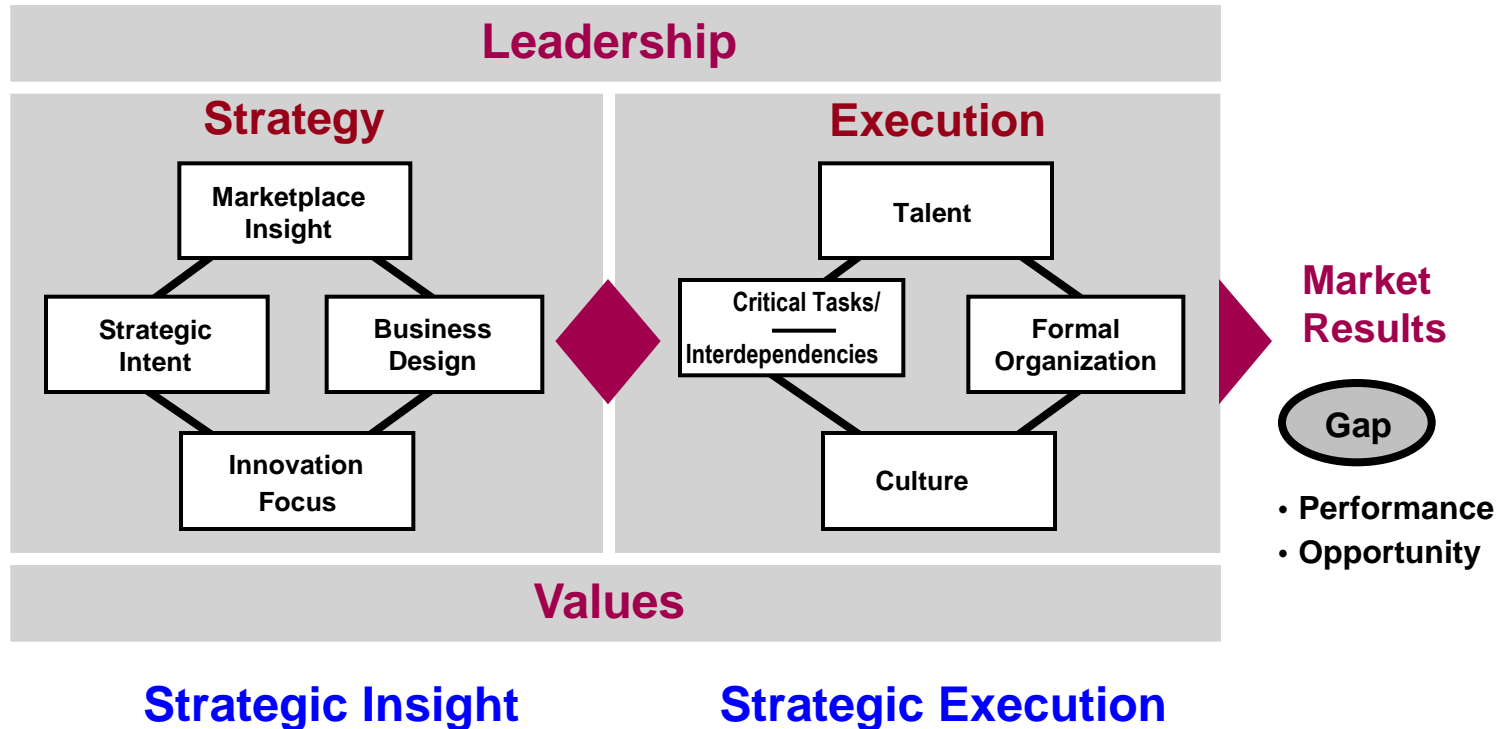
Why Do Successful Firms Fail?

- **WRONG STRATEGY?**
- **WRONG TECHNOLOGY?**
- **STUNTED EXECUTION?**
- **BAD LUCK?**

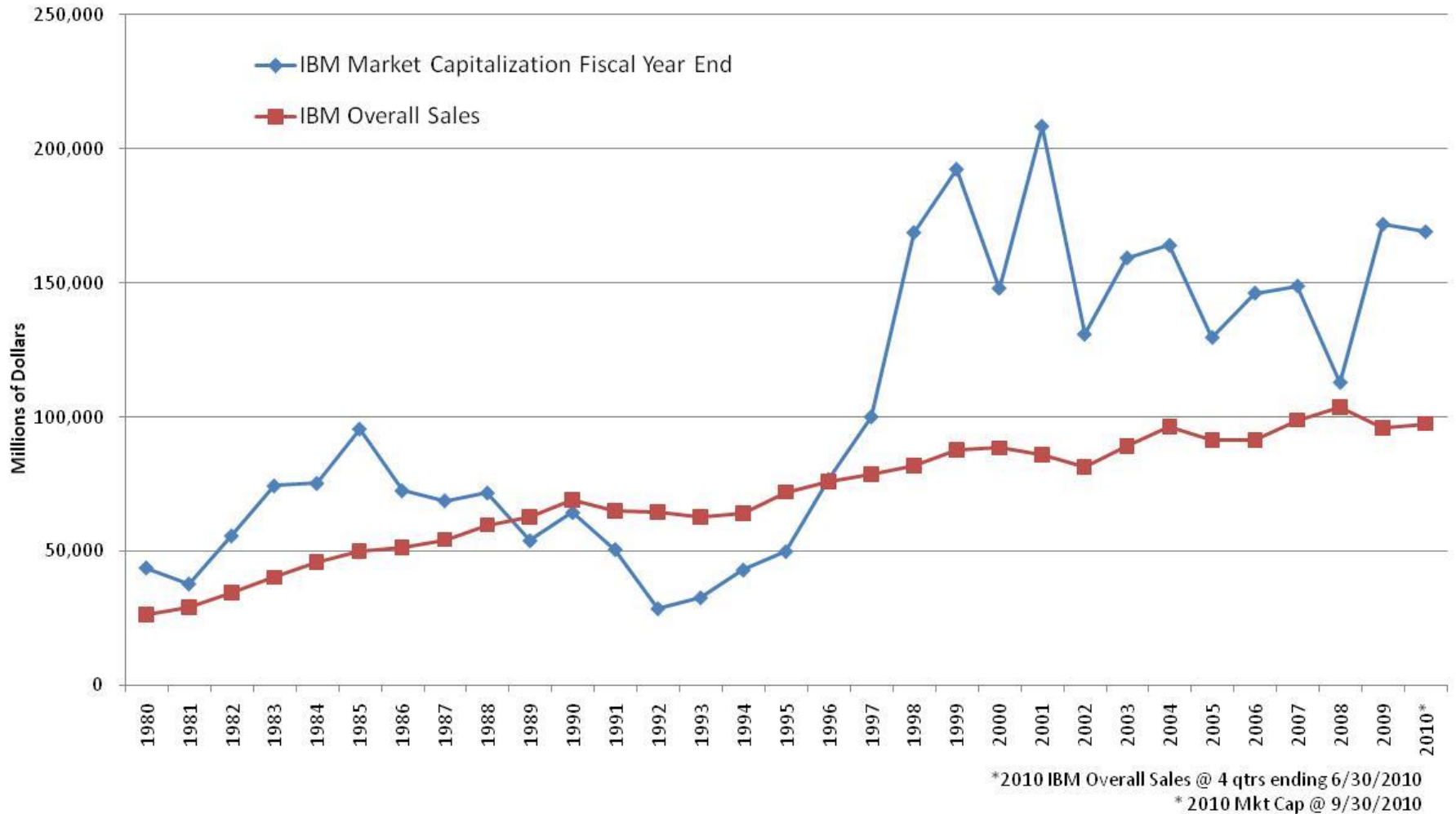


The young Assistant Secretary of the Navy stands with Admirals McKean, left, and Sims in 1919.

Innovation and Organizations



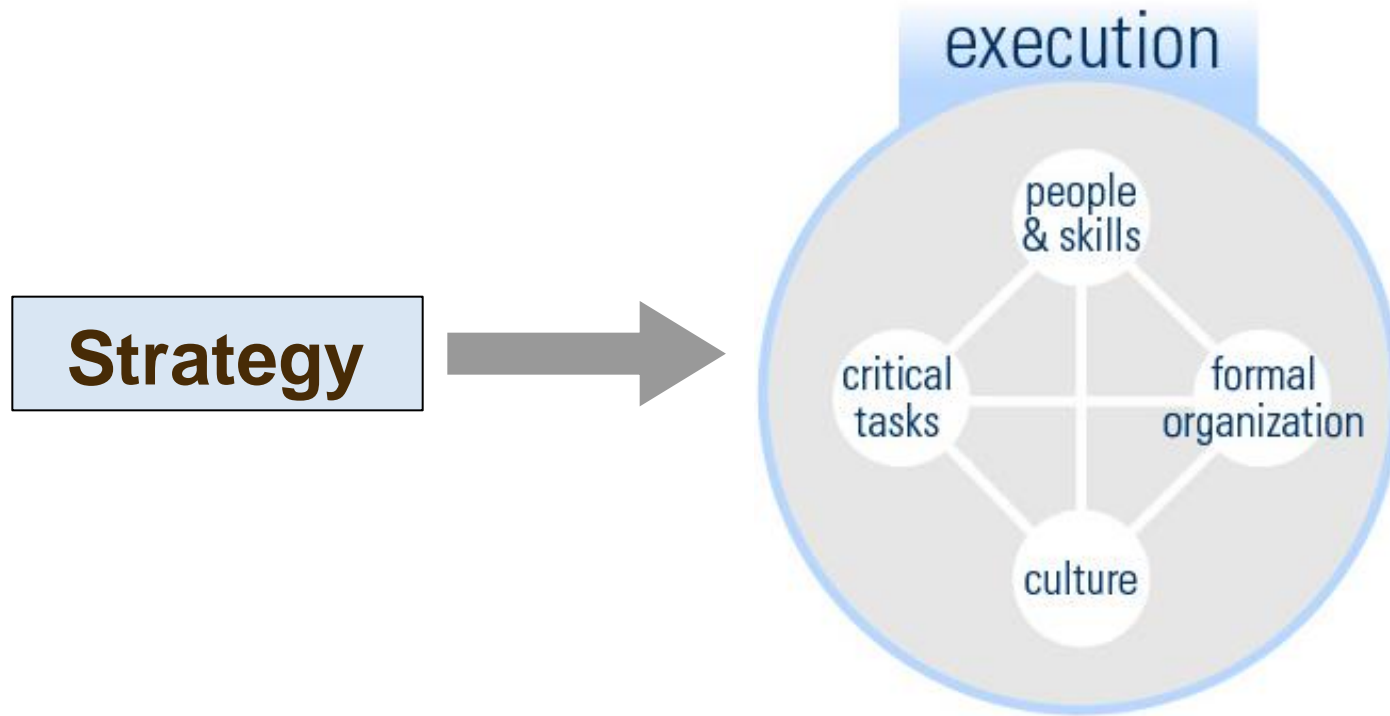
IBM



Performance and Opportunity Gaps

- **Performance Gap**: Our revenue growth over the past 10 years has lagged the market (4% vs. 8%). Our goal is to break out of this pattern of low growth and achieve 10% profitable revenue growth in the next 24 months. Achieving this will result in an estimated \$5 billion in top line growth.
- **Business Owner**: VP of Line of Business
- **Performance Gap**: The firm has grown dramatically over the past 5 years. During this period the quality of our products has declined. Our attempts at introducing six sigma have failed and we have lost 5 points in market share in the past 12 months. Each point lost represents roughly \$500 million in revenue.
- **Business Owner**: VP Quality
- **Opportunity Gap**: Current revenue growth per customer in our existing markets is growing only slowly (5% per annum) and customer expectations are increasing. If we are able to move up the stack and provide solutions rather than point products, we should be able to increase revenues and profits by 20% over the next 3 years.
- **Business Owner**: Division GM

Strategic Innovation and Change



Fit



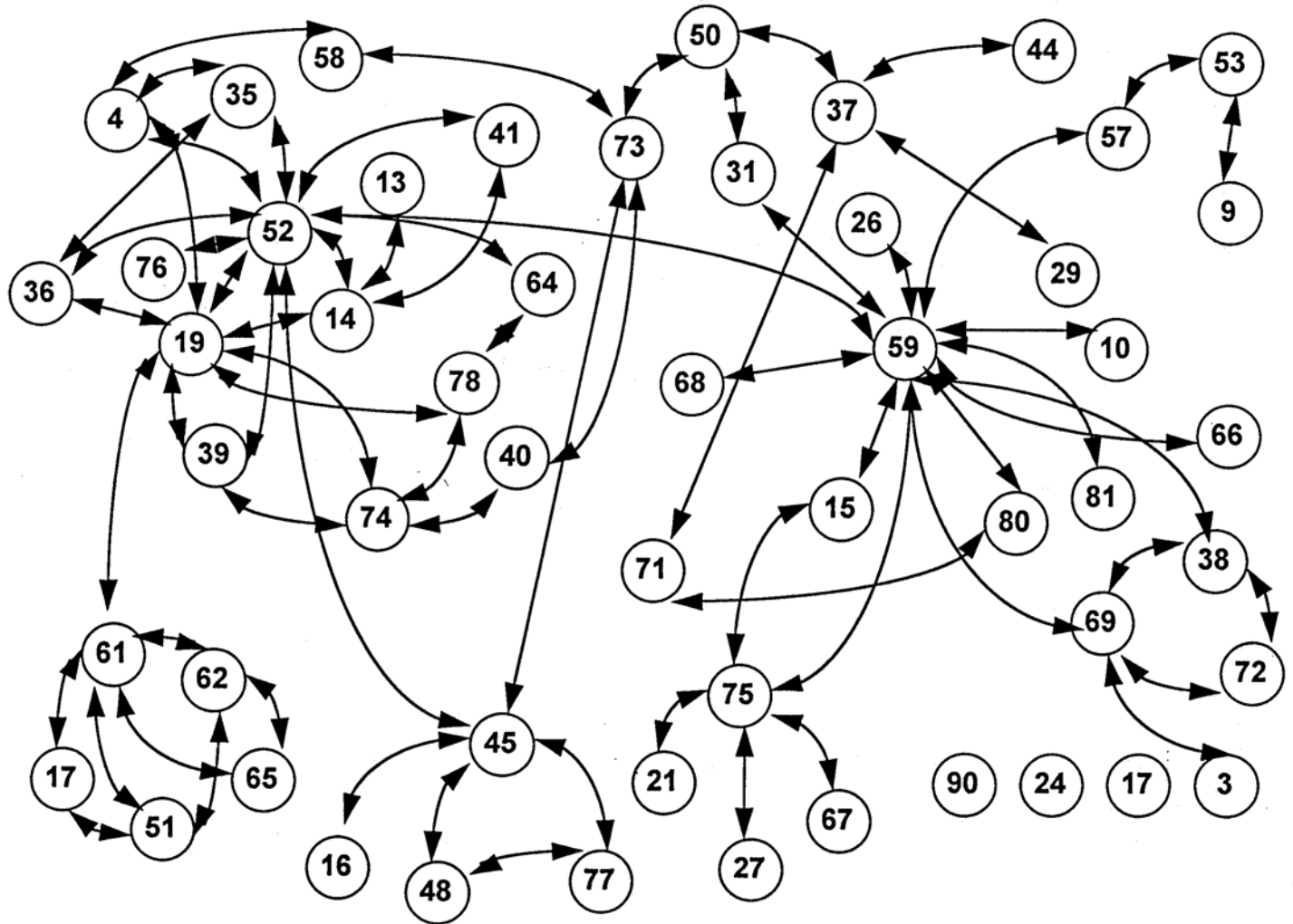
Performance

Informal Organizations (Culture)

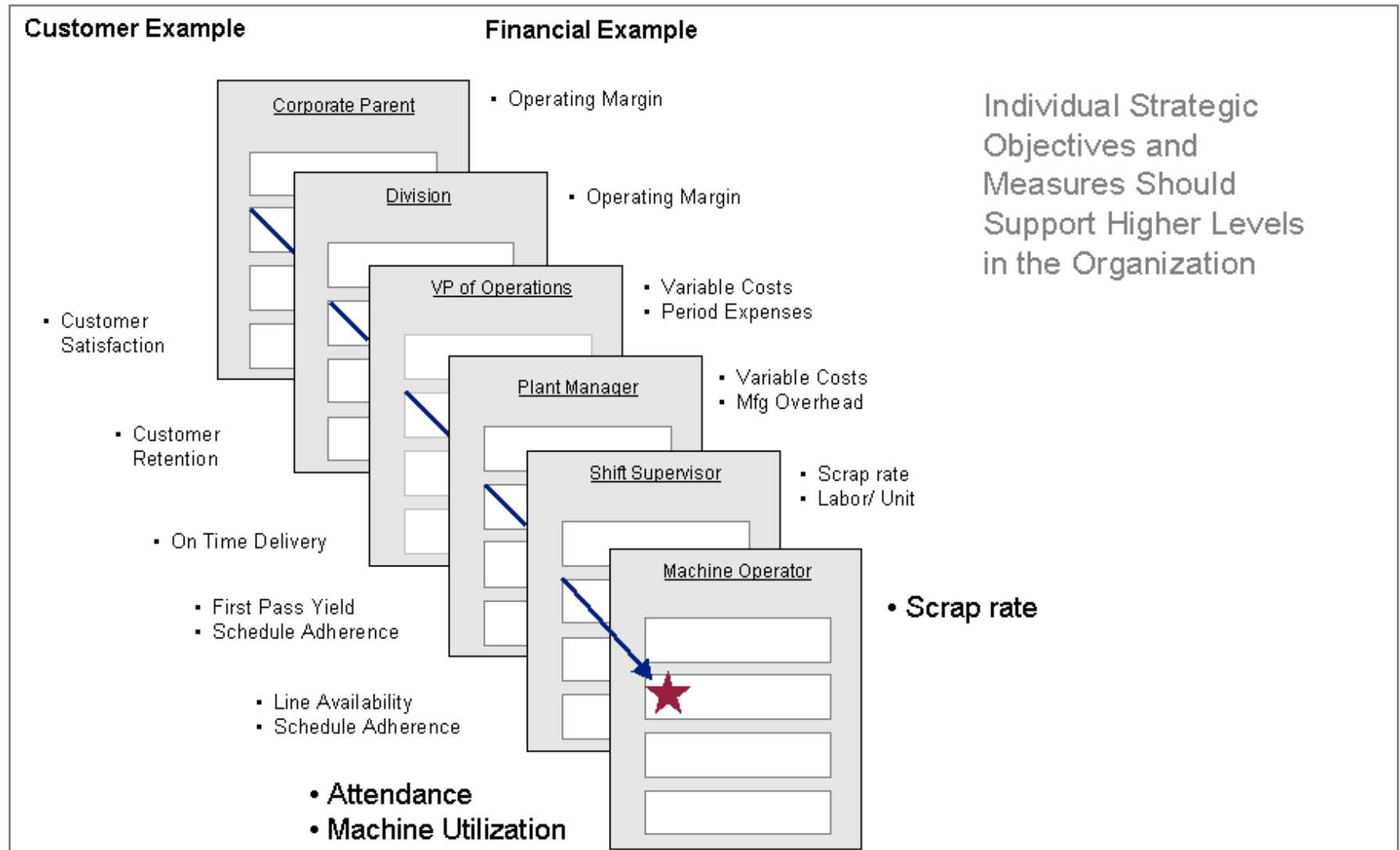
- ▶ Norms...dress, working late, conflict resolution
- ▶ Values
- ▶ Communication and influence patterns
- ▶ Climate...collaborative, teamwork, standards
- ▶ Core beliefs...what we believe in
- ▶ Power/politics
- ▶ Key roles

Conduct multiple levels of analysis, e.g., unit, inter-unit, organization

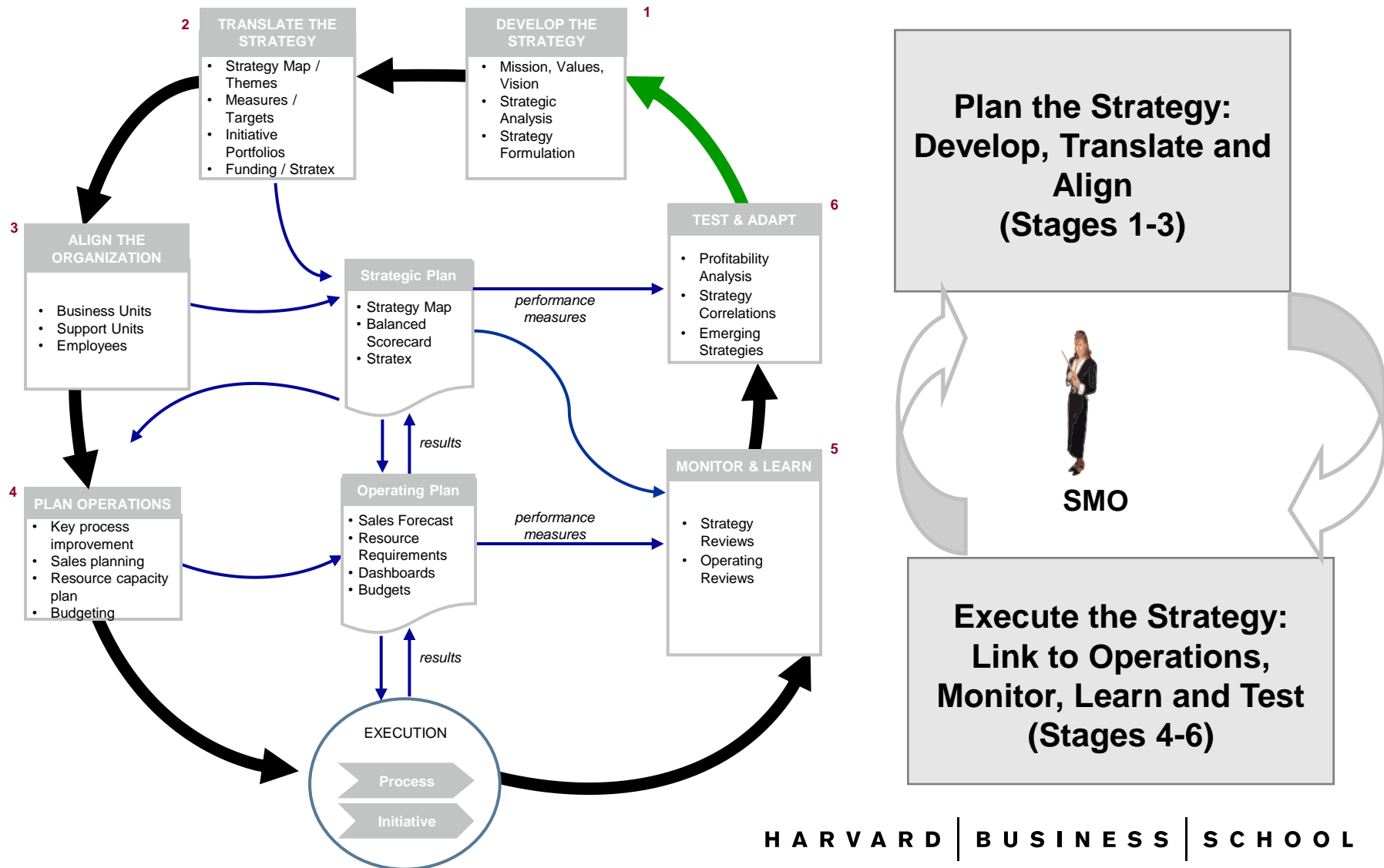
Informal Communication Networks



Align Employee Objectives to Strategic Priorities



8. Institutionalize the New Culture: A New Strategy Management Office Coordinates the Six Stage Management System



Principles of TQM

1. Customer focus

Ensure that customers drive quality

2. Visible leadership & empowerment

Involve everyone
Small group activities

3. Process mapping & benchmarking

Treat everything as a process

4. Aggressive improvement goals

Defect reduction
Cycle time reduction
Customer satisfaction

5. Build in quality from the start

Tanguchi methods
Robust design

6. Solve problems using facts and data

Common measurement system
The tools of TQM

7. Common values and language

Education/training
(prerequisite)
Motivation & recognition

8. Creation and diffusion of “success stories”

Start a critical few TQM projects

9. Action being taken

TQM is an executive’s responsibility

We then repeat the process, factoring new knowledge gained into the next generation of the plan. PDCA is an ongoing iterative process aimed at systematic improvement through each cycle.

The basic philosophy of PDCA is to make continuing incremental improvements rather than major one-time breakthroughs. Some organisations use terms like "leapfrogging the competition" to illustrate the concept of the quantum leap improvement.

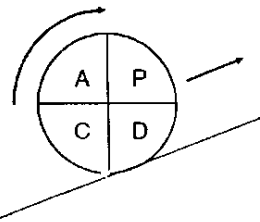
PDCA "PHILOSOPHY"

WIN WITH MANY SMALL GAINS,
NOT BY A FEW "MIRACLES"

Unfortunately such improvements (often driven by high technology or radical business changes) are seldom realised. The slower (but surer) approach of learning from experience and developing successes built on past experience leads to many small gains which accumulate over time into major improvements.

The PDCA cycle is often characterised by a wheel turning through the Plan, Do, Check and Act phases, resulting in continuing improvement, moving upward toward a goal. We will refer to this concept as "turning the PDCA wheel".

CONTINUOUS IMPROVEMENT



Congruence is a double-edged sword: The failure of success

- Size leads to structural inertia
- Age leads to social inertia
- Success leads to pride and arrogance



Inertia dangerous in a rapidly changing environment

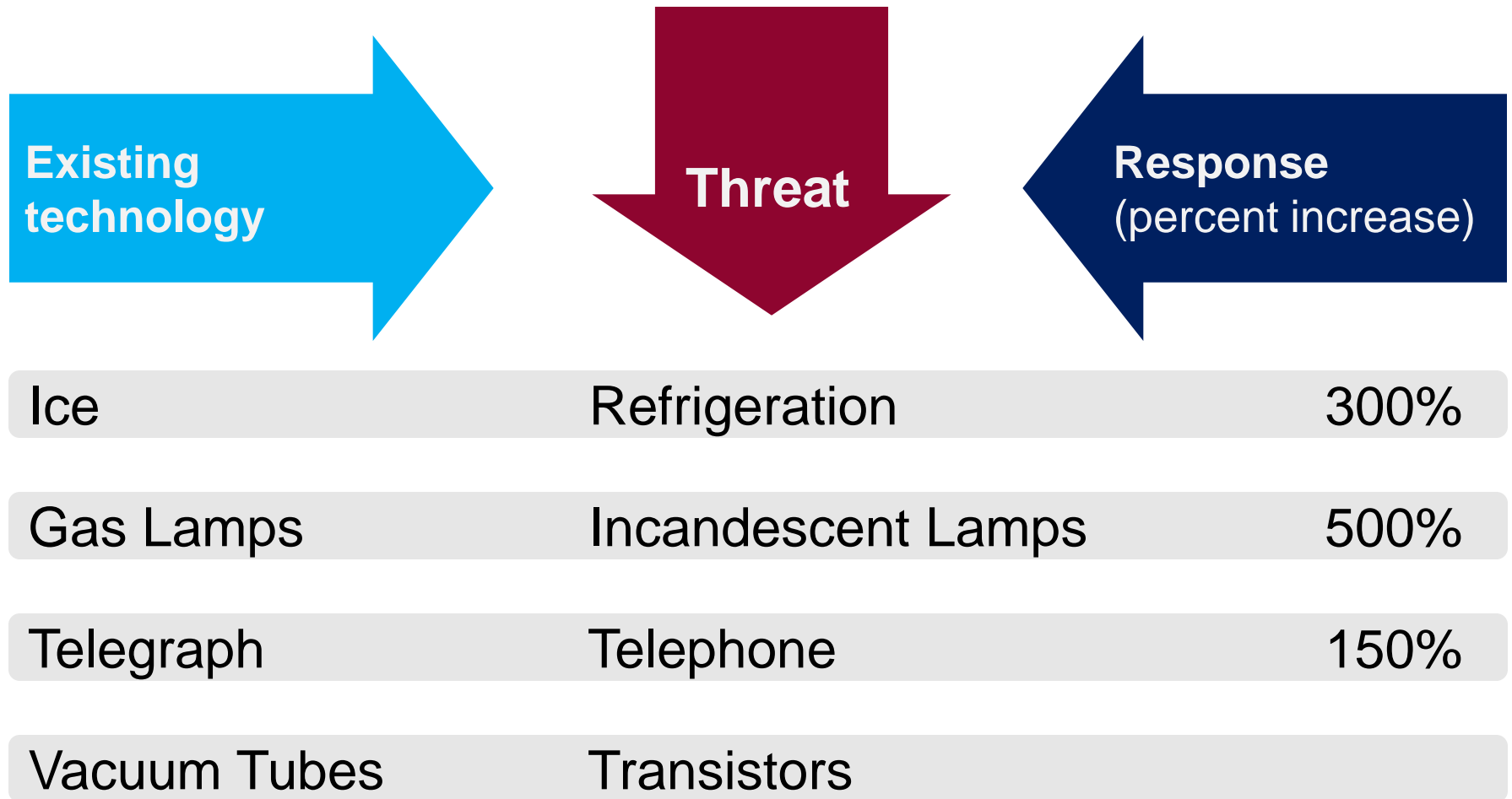
When environmental situation changes dramatically, managers typically:



- Increase commitment to the status quo
- Decrease vigilant information search
- Increase conformity pressures

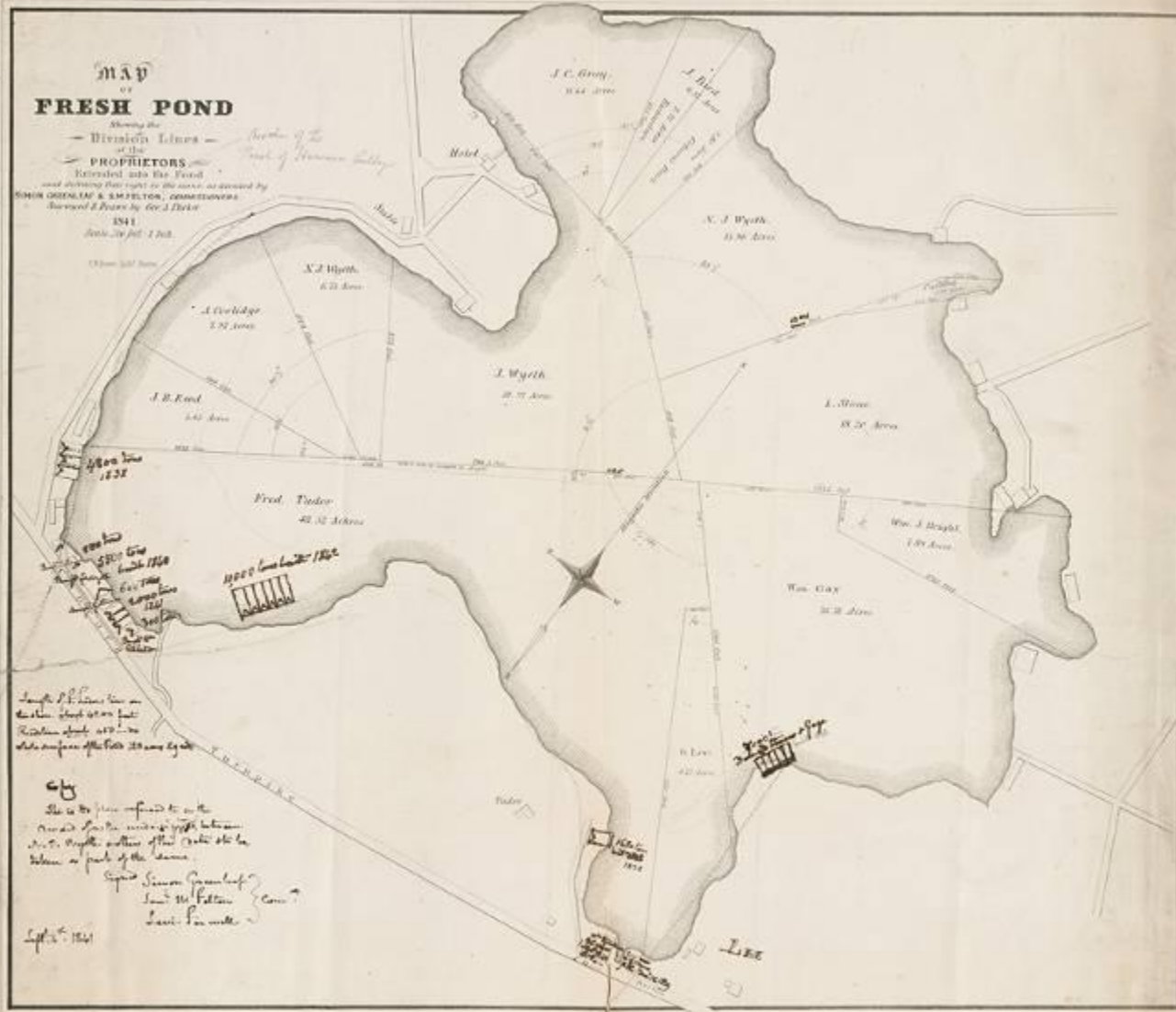
Or, do more of what we do best!

Examples



**MAP
OF
FRESH POND**

Showing the
Division Lines
of the
PROPRIETORS
Retained into the Pond
and showing their right to the same, as secured by
SHEPHERD GREENLEAF & SONS, INC., COMMISSIONERS
Approved & Passed by Gov. J. DAVIS
1941
Date of file: 1 Feb.



Length of line from
to the top of the
River about 110 feet
while surface of the Pond 250 feet by 100

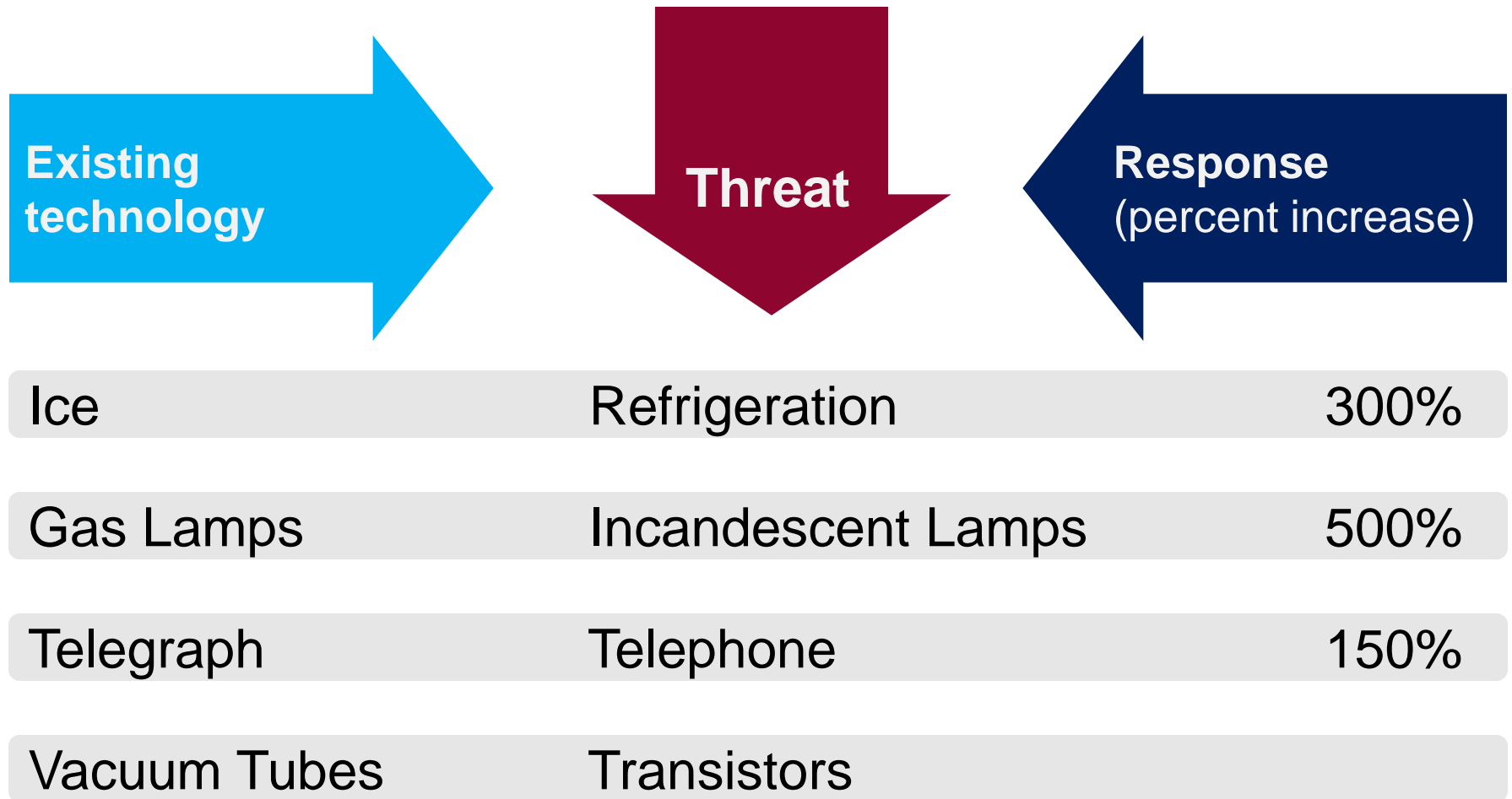
65
This is the place referred to in the
records for the survey of 1874 between
J.C. Green & others of the Pond to be
taken as part of the same
Signed: Shep. Greenleaf
Land & Water Comm.
David Fox mill

Sept 21 1941





Examples



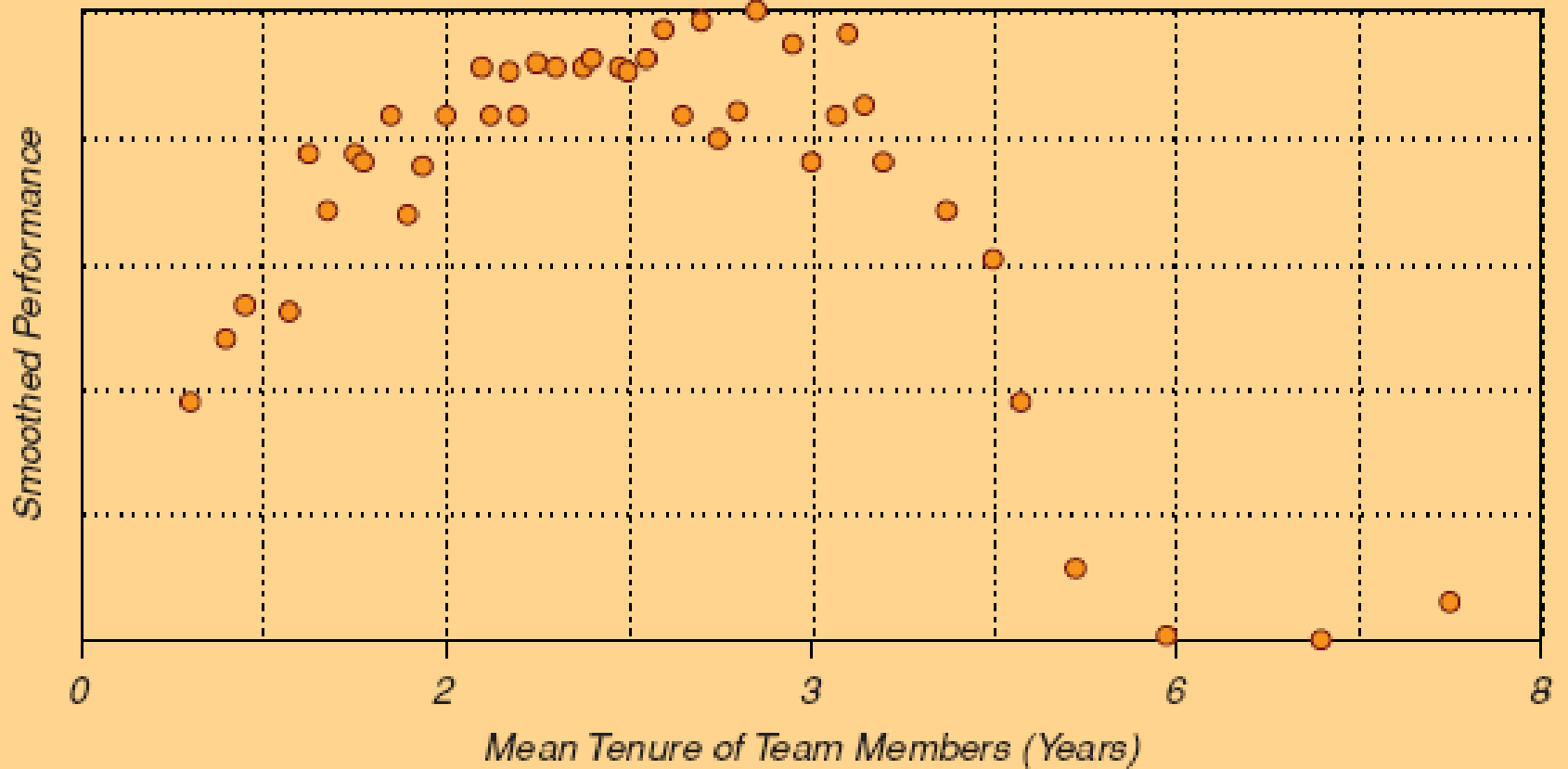
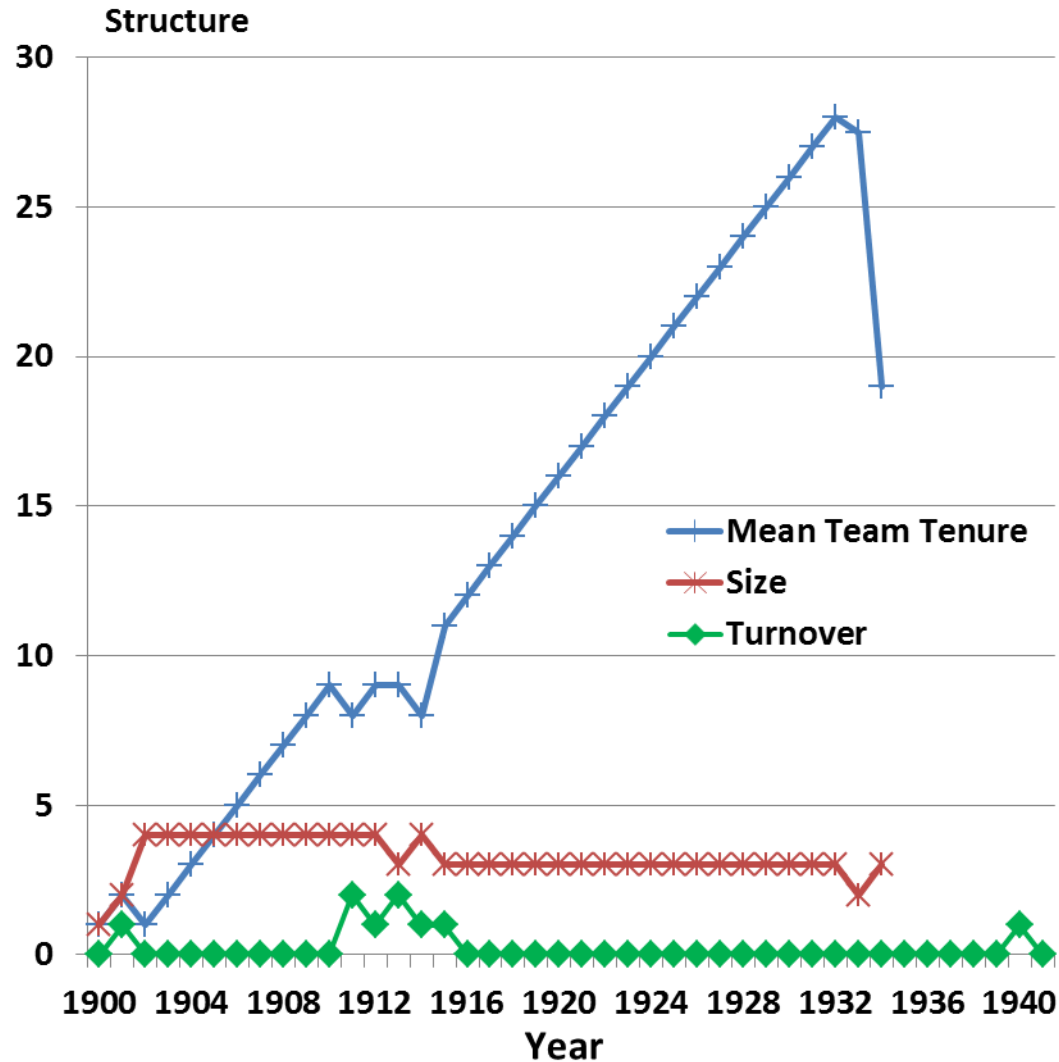
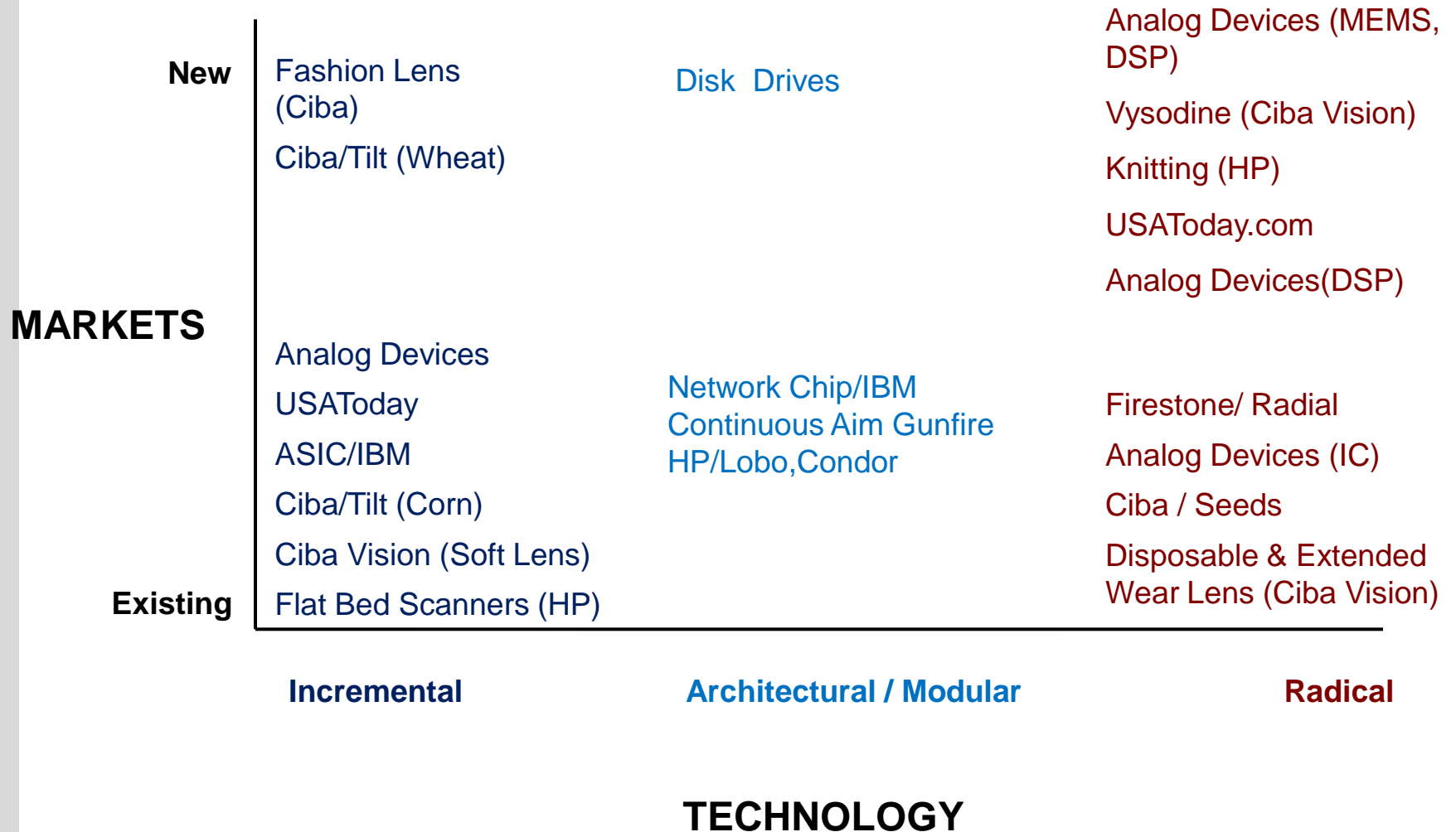


Figure 2-5 Project Performance as a Function of Team Age (45 Chemical Industry Projects)

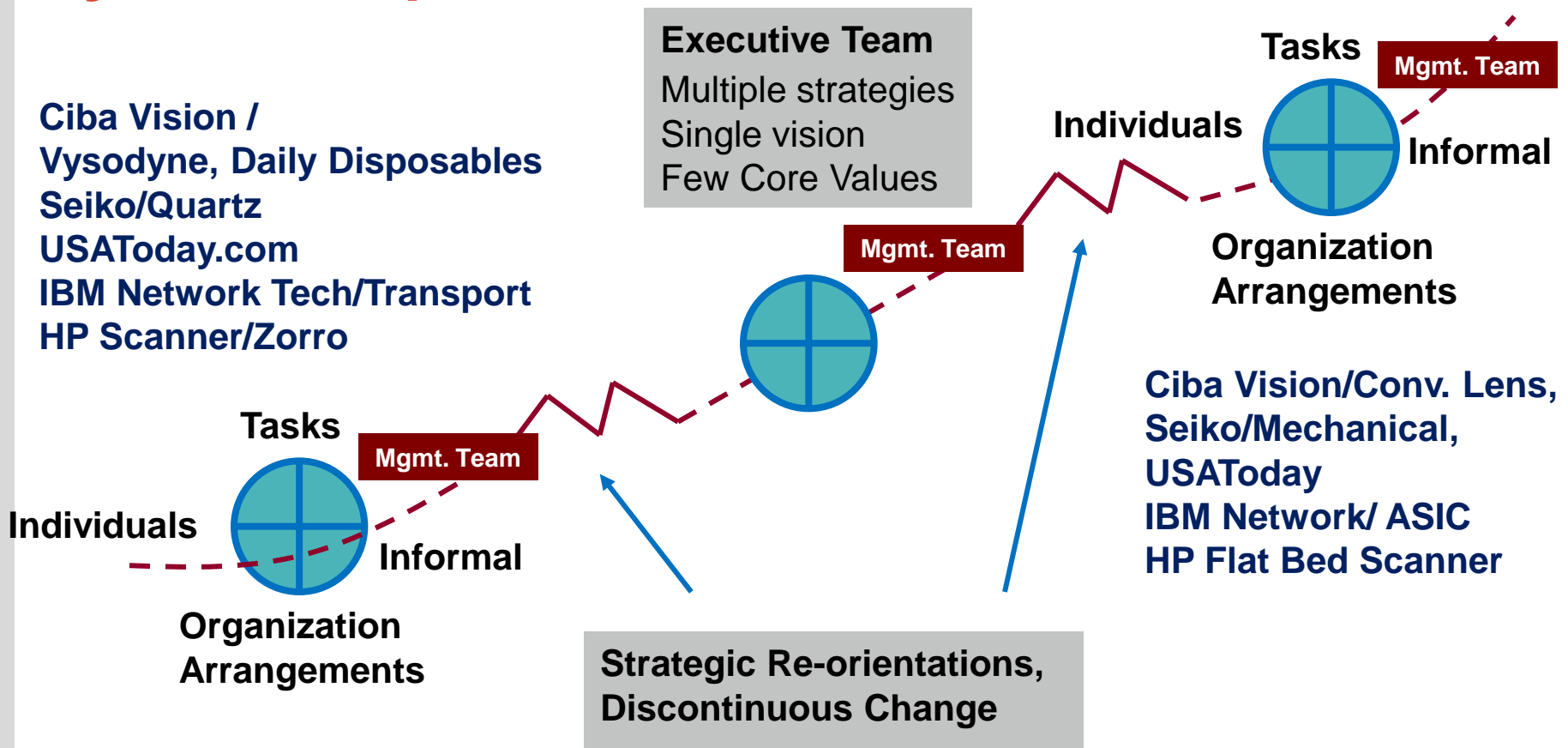
Colorado Portland Cement Company Executive Team Structure



Innovation Streams



Ambidextrous Designs, Innovation Streams & Dynamic Capabilities



Ciba Vision /
Vysodyne, Daily Disposables
Seiko/Quartz
USAToday.com
IBM Network Tech/Transport
HP Scanner/Zorro

Ciba Vision/Conv. Lens,
Seiko/Mechanical,
USAToday
IBM Network/ ASIC
HP Flat Bed Scanner

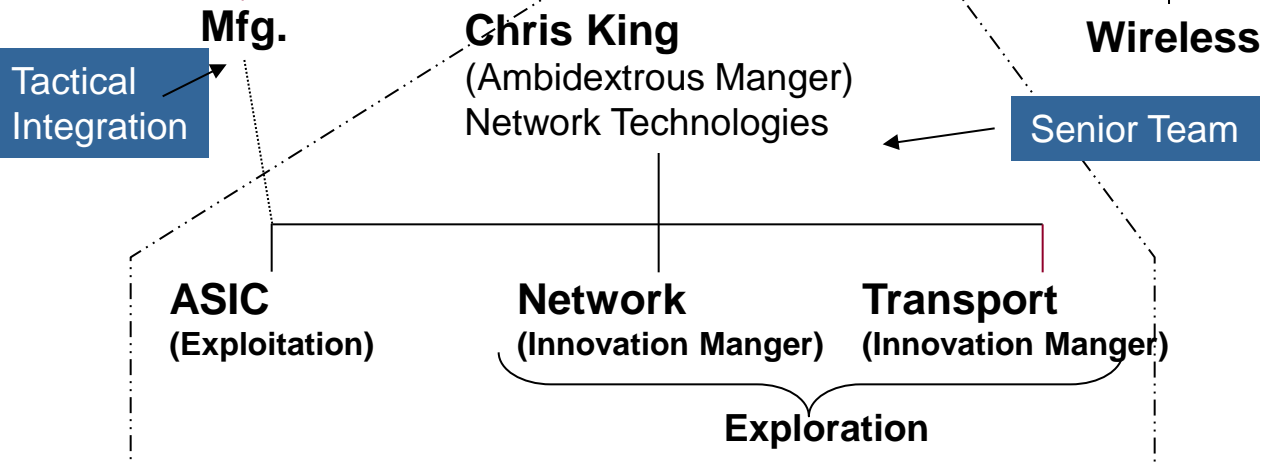
Characteristics of Ambidexterity

Characteristics of Ambidextrous Forms

- Structural differentiation of explore/exploit units
- Integration at senior team level
- Investment by 'Meta Manager'
- Targeted integration of functional resources
- Common fate rewards system
- Overarching vision of senior team including both explore and exploit
- IM internal/external, staff external

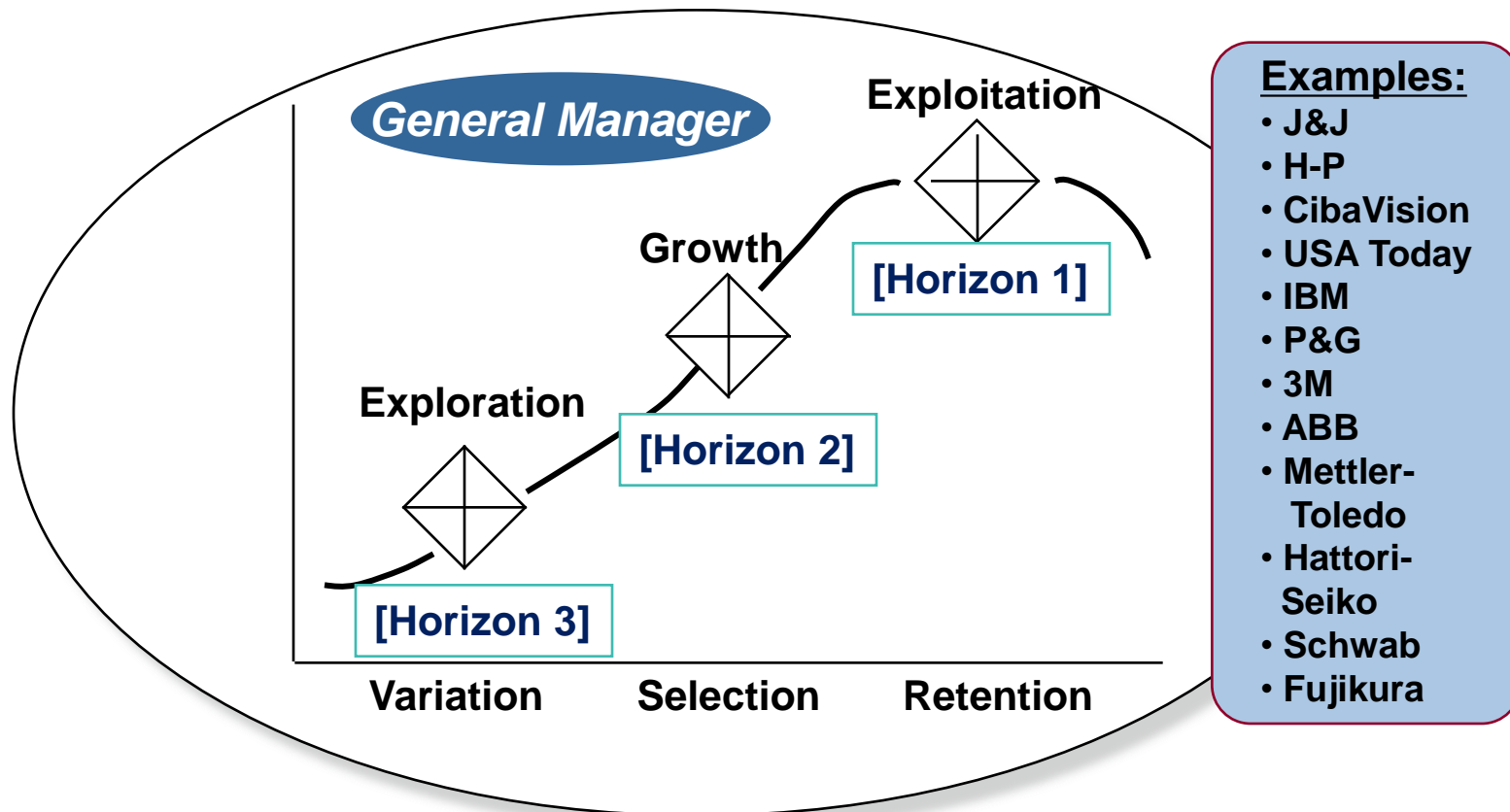
VISION: # 1 Supplier of Network Technology chips by 2000

J. Kelley
(Meta Manager)
Group Executive



The Ambidextrous Organization

- A single general manager and team
- A common vision and values
- Strong decentralization
- Multiple strategies, structures, processes, and cultures -- each separately aligned

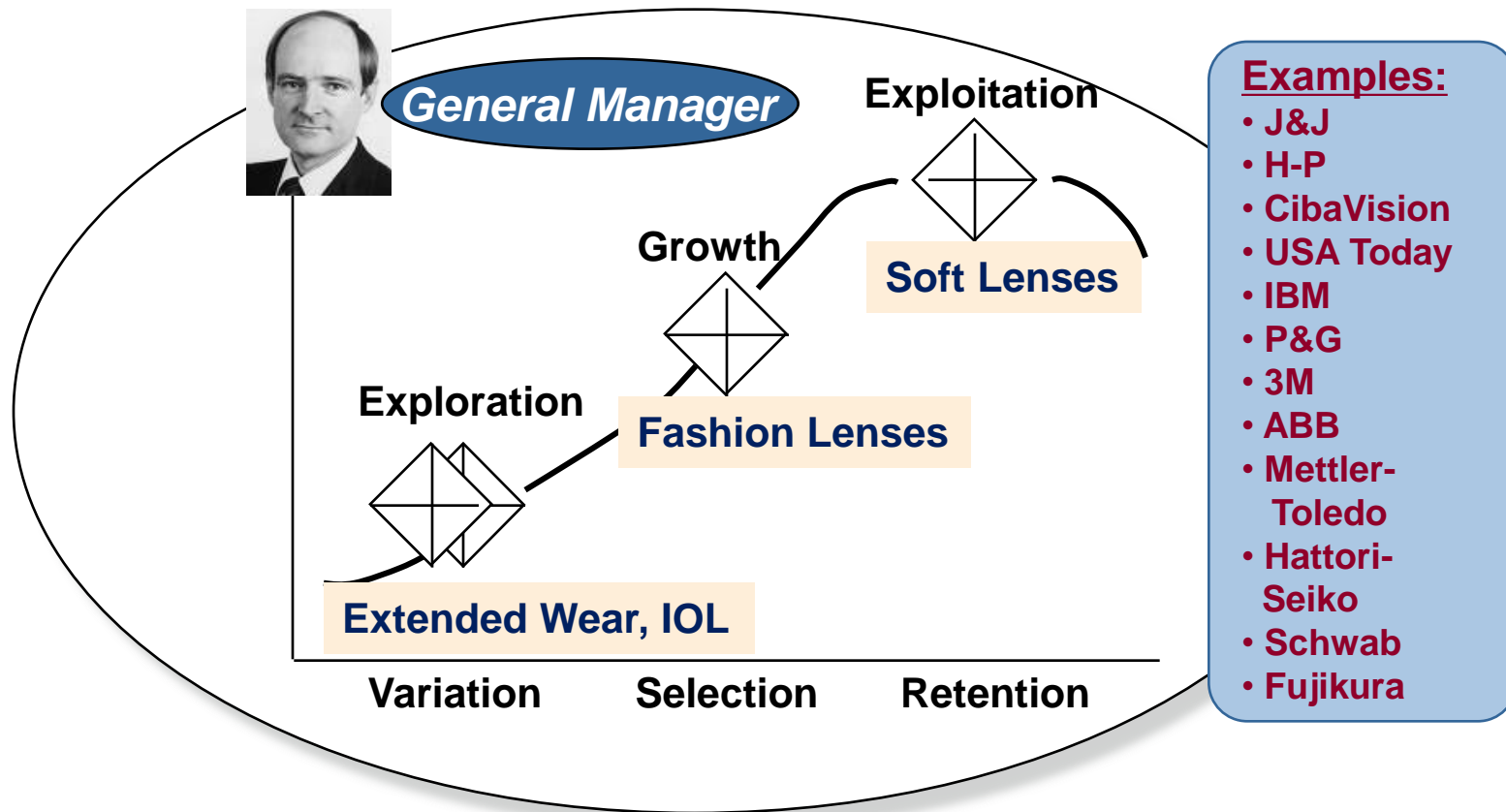


Examples:

- J&J
- H-P
- CibaVision
- USA Today
- IBM
- P&G
- 3M
- ABB
- Mettler-Toledo
- Hattori-Seiko
- Schwab
- Fujikura

The Ambidextrous Organization

Ciba Vision



Senior Team Challenges

- **Clear strategic intent** that justifies the importance of the ambidextrous form
- **Overarching vision** and HR practices to emotionally engage everyone
- **Aligned senior team** with common rewards that communicates a consistent message
- **Organizational architecture** that promotes exploration and exploitation with targeted integration to leverage firm-wide assets
- **Ambidextrous leadership** that tolerates the contradictions of multiple alignments and can resolve the trade-offs required

Ambidextrous Leadership Skills..

- Hold Paradox, Be Consistently Inconsistent
- Manage a portfolio of related experiments or projects
- Establish and communicate a clear vision
- Establish a Few Overarching Core Values
- Create an extended team for advice and counsel
- Balance opposing factors to imagine future possibilities that are currently unrecognized market needs
 - ▶ Recognize when to continue and when to abandon an idea
 - ▶ Build and Coach a senior Team that can deal with paradox

Leadership Teams: Four Ironies

(from Wageman and Hackman, 2010)

Irony I: Leadership teams are composed of powerful people—
yet they tend to be under-designed, under-led, and under-resourced.

Irony II: Membership is important and coveted—
but members often don't know who is on the team, and they do not really want
to come to team meetings.

Irony III: Members are overloaded—
but they tend to waste enormous amounts of time in team meetings

Irony IV: Authority dynamics pervade leadership teams and complicate team processes
—but members won't talk about them.

Irony V: These dynamics are accentuated the more senior the team....

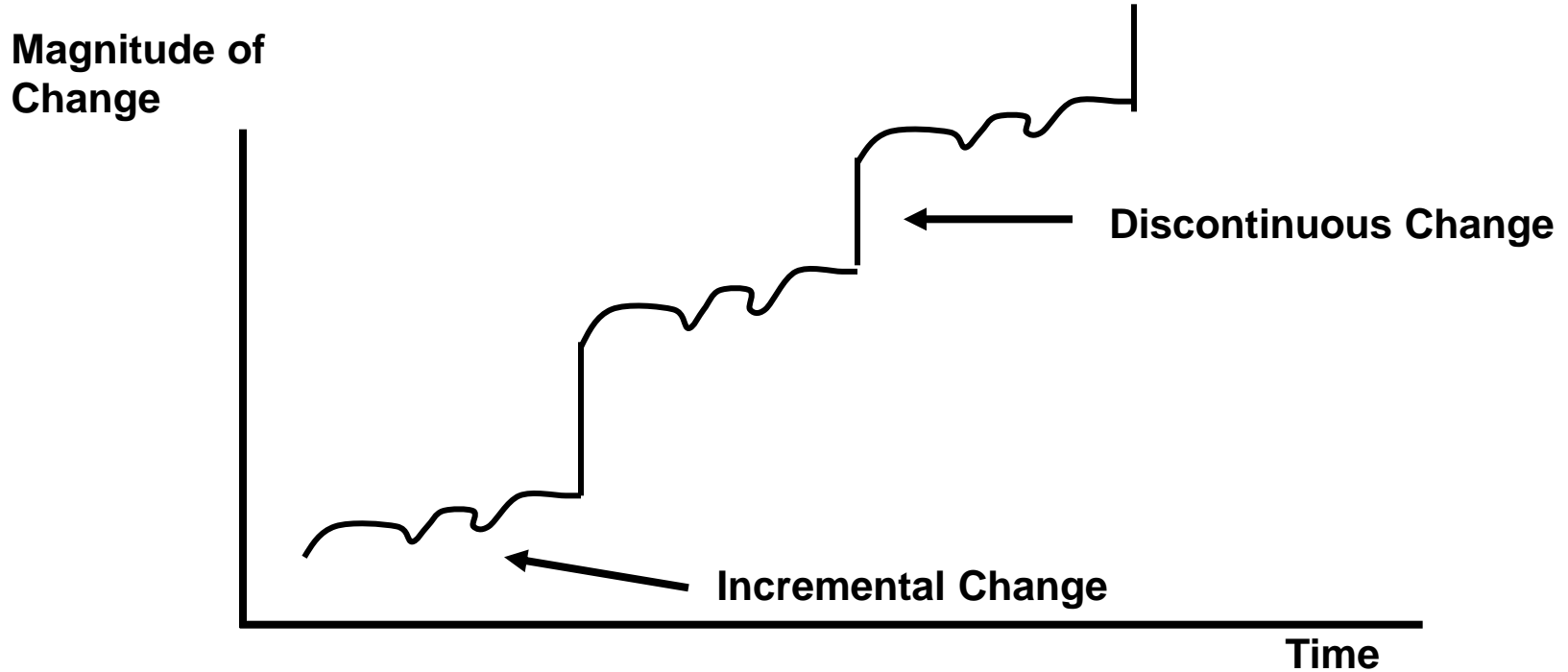
How do Organizations Evolve?

- Through incremental change in exploitative unit
- Proactive discontinuous change in exploratory unit
- Or, periods of convergence with increasing congruence punctuated by re-orientations, often requiring new top management teams

Examples

- ▶ Ciba Vision
- ▶ IBM Middlewear
- ▶ USAToday
- ▶ HP Scanner
- ▶ IBM Network Tech

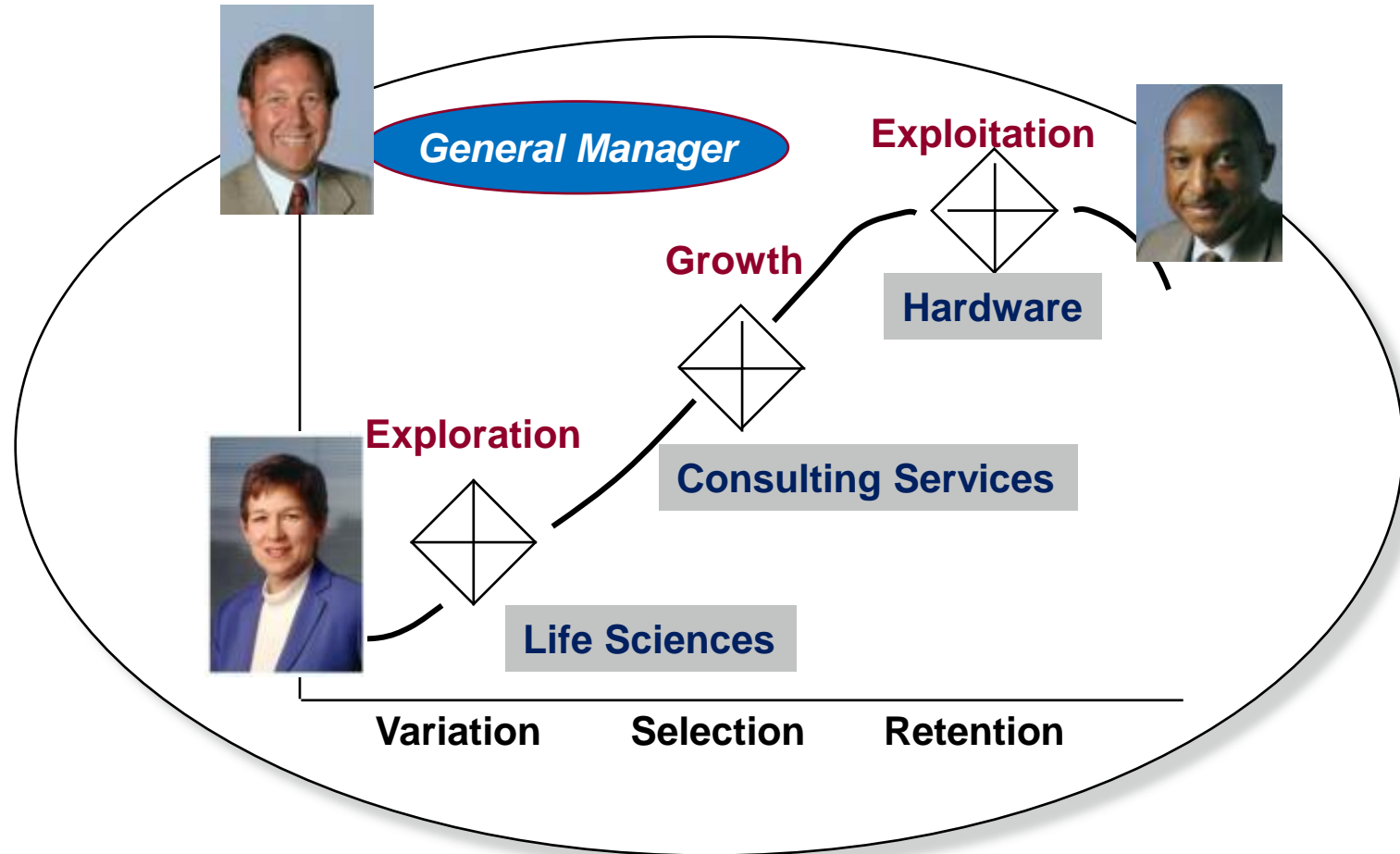
Patterns in Organizational Evolution



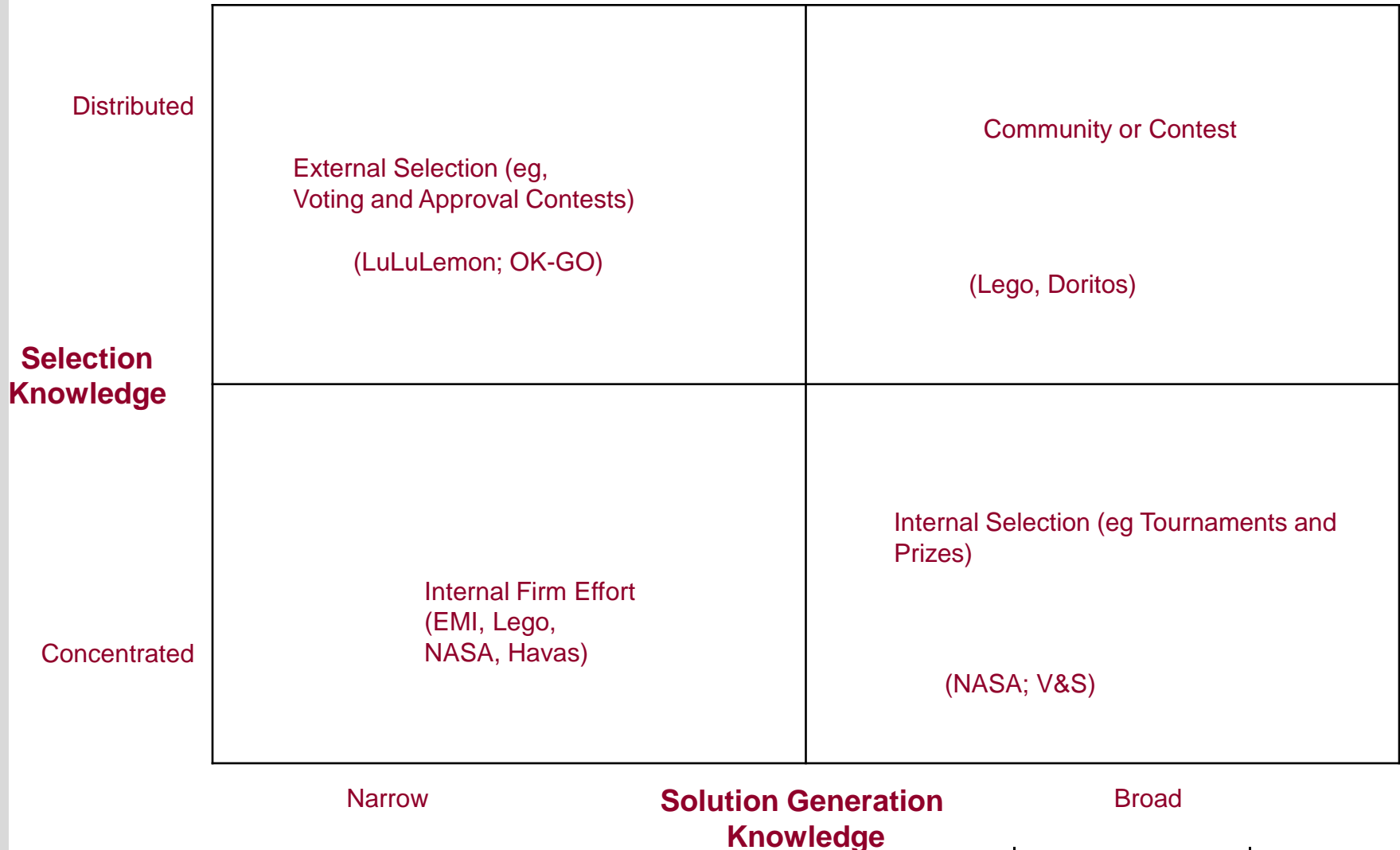
Organization Evolution:

- Incremental and punctuated change or Periods of incremental change punctuated by discontinuous change
- Executive team succession often associated with discontinuous organizational change
- Managing discontinuous change fundamentally different than managing incremental change

Corporate Ambidexterity at IBM



Varieties of Open Innovation: Communities and Contests



Innovation and Organization Design Logic in Networked Information Economy (Benkler, 2006)

Logic of Communities, Peers

Autonomous, self-selected, decentralized action

Decentralized coordination; emergent social structure

Intrinsic (and extrinsic?) motivation

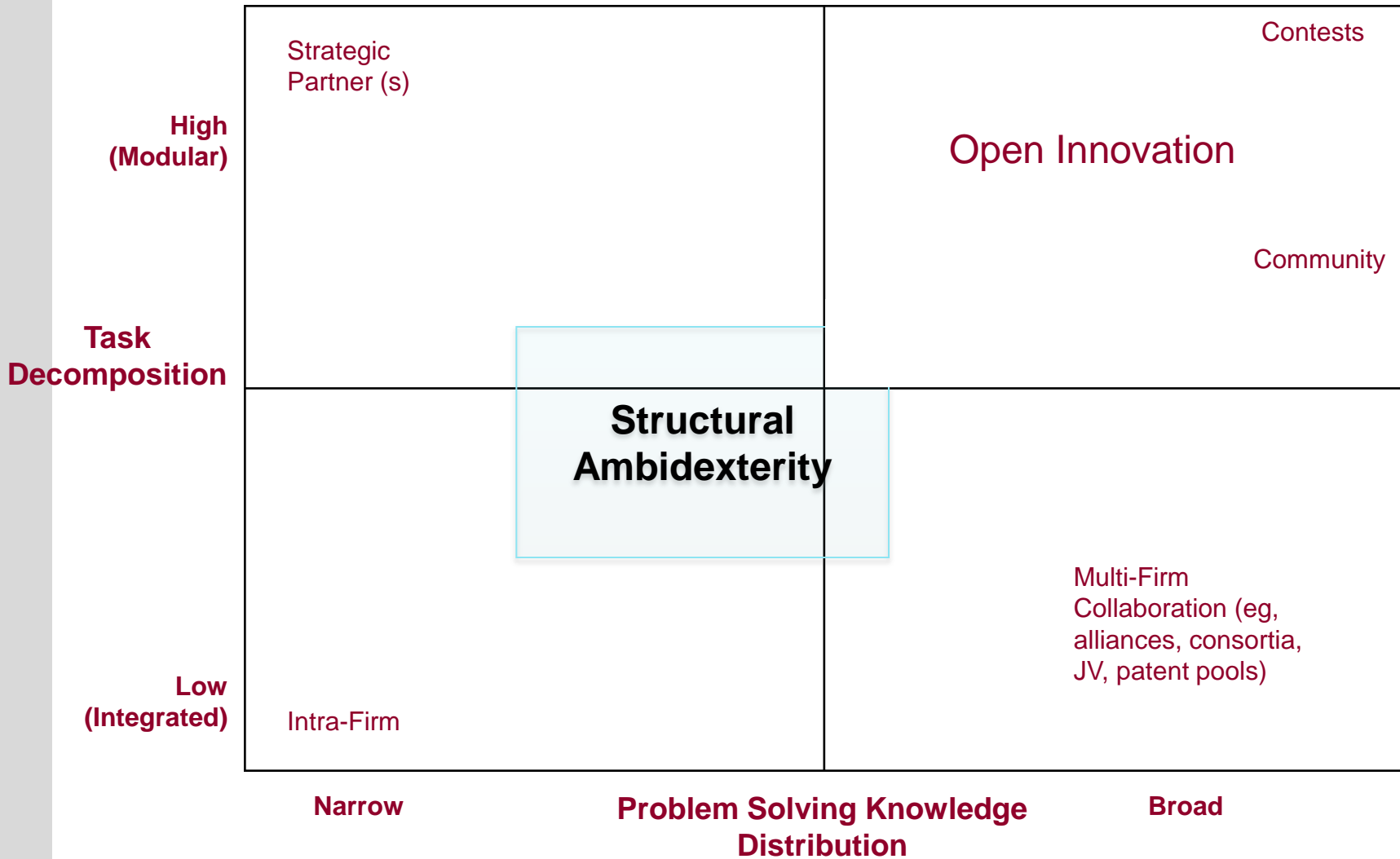
Non-market production; share resources and outputs

Peer, non-proprietary innovation

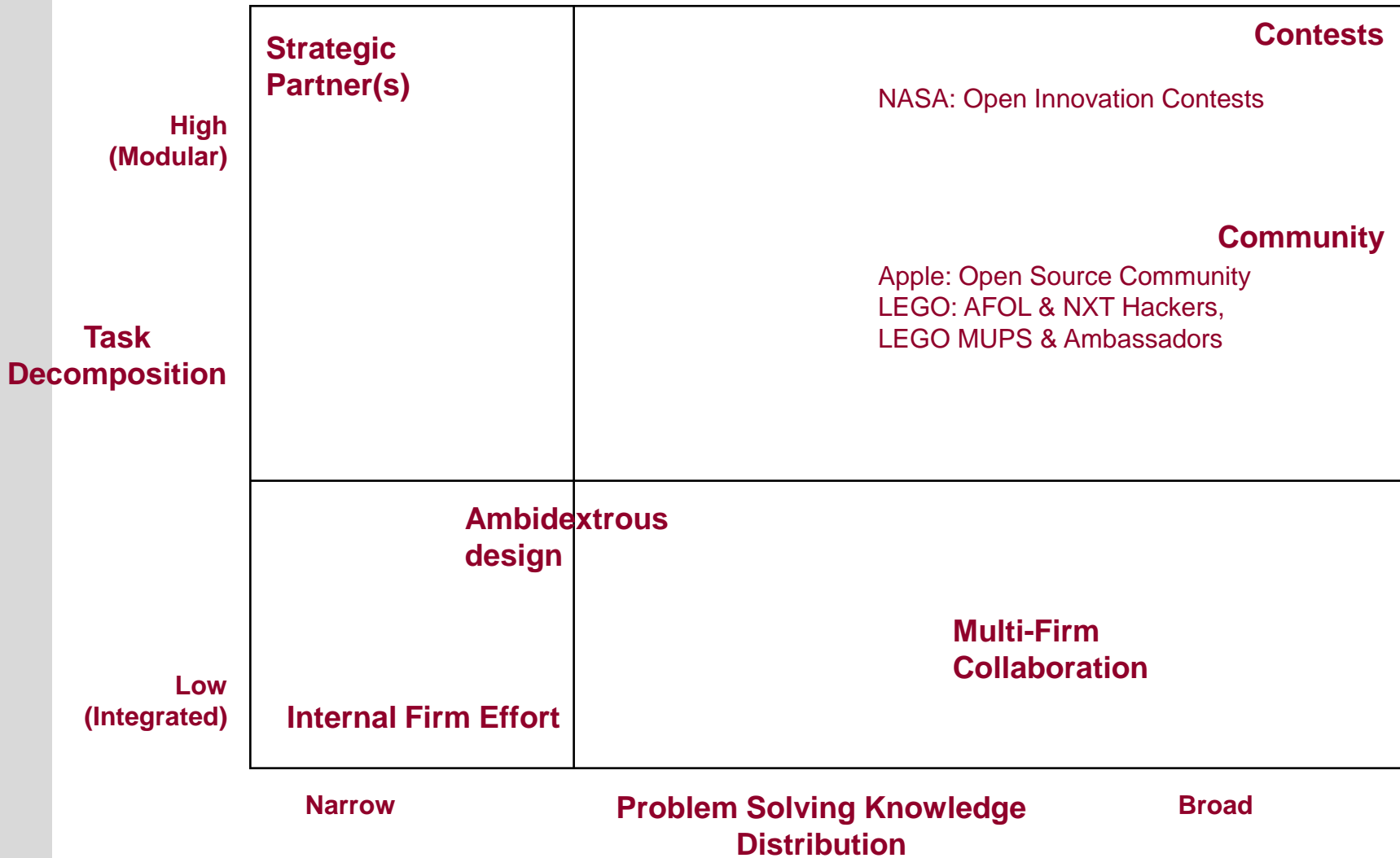
Open, shared IP

Social, emergent, distributed architectures

Modularity, Knowledge Distribution, and Locus of Innovation

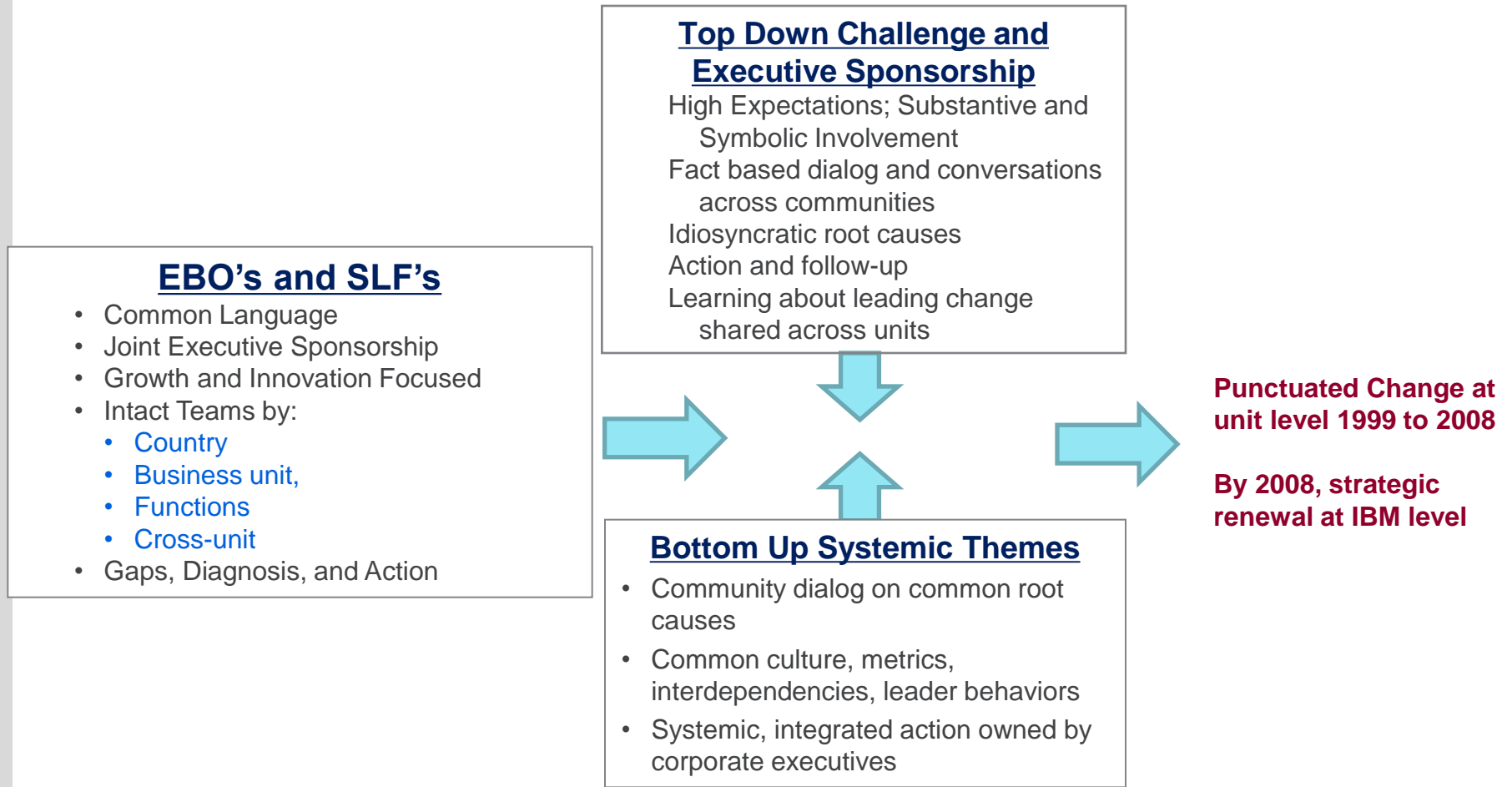


The Increasing Intrusion of Open Innovation on Incumbents



Strategic Renewal at IBM (1999-2008)

Gerstner's Innovation Challenge; Palmisano's Aspiration to Reinvent IBM



The Art of Strategic Renewal

The Art of Strategic Renewal

MIT Sloan
Management Review

By Andy Binns, J. Bruce Harreld, Charles O'Reilly III and Michael L. Tushman

1. Select growth aspirations that connect with people emotionally
2. Treat strategy as a dialogue as opposed to a ritualistic, document-based planning process
3. Use experiments to explore future possibilities
4. Engage a leadership community in the work of renewal.
5. Apply execution disciplines to the effort.

LCOR in Action: Content of Change

LCOR Model helps leaders make decisions about why change (strategy), what to change (execution) and outputs (gaps).



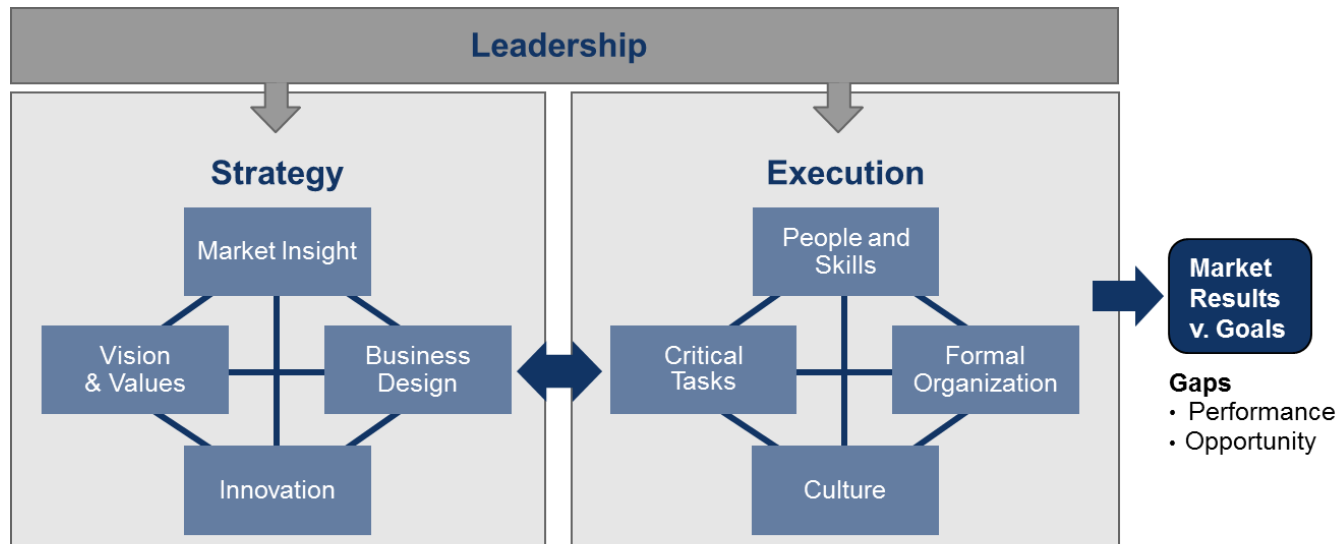
Executive Task Forces apply model to diagnose and solve strategic problems in the business.



All executives trained in the method; used for business planning process. Use to stand-up new businesses.



Each employee has a 'mouse mat' with the model completed for their business – explained strategic goals.



Source: Harreld, O'Reilly, Tushman, 2007

LCOR in Action: Process of Change

LCOR as a 'Leadership Forum' provides a process for accelerating transformation efforts by engaging large groups of leaders.



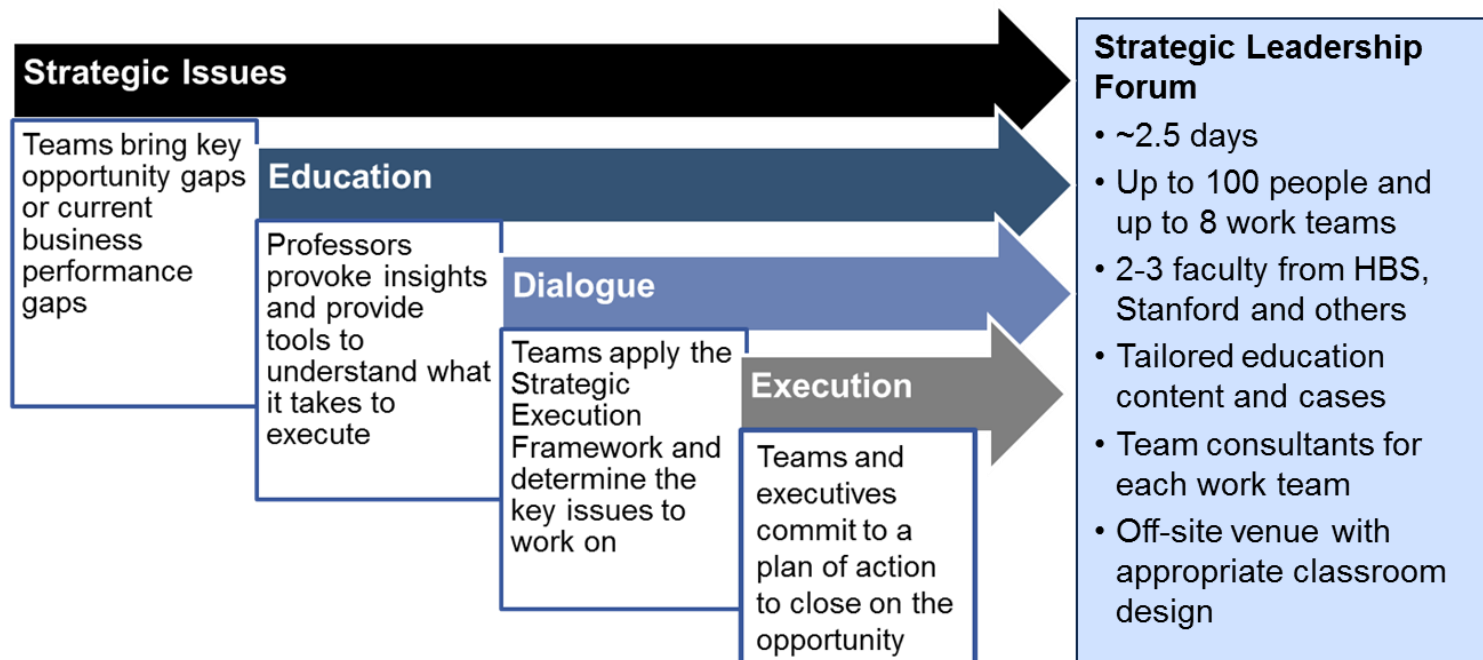
'Strategy as dialogue' –
5k executives
participated in SLFs



Transformation to support
\$650M capital investment; 8
sessions, 500 executives



R&D team use as method for
building plans for new,
disruptive projects



LCOR in Action: Value of Method

LCOR Method tackles both the tangible – logical, managerial concerns – and intangible – human, leadership – dimensions of transformation.

Tangible

- Business goal/output driven approach
- Strategic alignment integrates disparate leadership agendas
- Discipline of root cause analysis
- Research-based approach

Intangible

- Leadership Forums create common purpose
- Transparent method, enables openness about tough issues
- Dialogue enables issues to be solved, rather than find someone to blame
- Leadership and culture embedded, not an add-on to business conversations

EMI OSONO

NORHIKO SHIMIZU

HIROTAKA TAKEUCHI

with JOHN KYLE DORTON

EXTREME

TOYOTA

Radical Contradictions
That Drive Success at the
World's Best Manufacturer

Extreme Toyota

A state of disequilibrium in which radical contradictions coexist, propelling Toyota away from its comfort zone and creating healthy tension and instability within the organization

Key Words for Understanding Toyota



Contradictions

Opposites

Paradoxes

Toyota's Contradictions



- Cultivating frugality while spending huge sums
- Operational efficiency as well as redundancy
- Cultivating stability and a mindset of paranoia
- Bureaucratic hierarchy and freedom to dissent
- Moving gradually and also taking big leaps
- Relatively low executive pay but self-actualization

