The man responsible for introducing the world to 'a new way to think' and nearly tripling the size of the Rotman MBA program describes how Integrative Thinking was born and the various ways in which capitalism is broken.

Thought Leader Interview:

Roger Martin

by **Karen Christensen**

In 1997, you were enjoying a very successful career as a senior executive with Monitor Company. What led you to change your career course so dramatically?

I have always believed that successful business people who care about society should, at some point, turn themselves to public service. I always figured I would do this when I was past the age of 50 — not 41! But former University of Toronto President **Rob Prichard**, who I had met through a consulting assignment, convinced me that this was the time to do it, and that this was a place where I could really contribute to my country. He made me believe that it was possible to take the University's business school and make it something that the Canadian business community, the city of Toronto and the University itself could be extremely proud of.

Describe how the concept of Integrative Thinking took shape.

Back in the early days of Monitor, we called ourselves 'Young Punks Consulting', because we were all in our 20s and 30s, and we were going up against big, established firms like **McKinsey & Company** and **Boston Consulting Group**.

I was always curious as to why anyone would actually hire us. After a couple of years, I came to the conclusion that the only time we were hired was when the problem at hand did not fit easily into the context of some definable kind of practice. Clients appeared to come to us for problems that were very messy, where there was no existing model to follow. For example, in the early days of cellular, we were hired by a Korean company to look into 'how cellular will develop in Korea'. Well, who could say? We had to sort of 'make it up' from first principles.

This got me thinking: what was it that led people to believe we would be able to tackle such problems? I had this vague notion that it was something about 'building new models from scratch' — models that crossed traditional boundaries. The problems we worked on were not 'marketing problems' or 'manufacturing problems' — they lay somewhere in between the silos. I started to believe that there was a 'there' there.

This was around the same time I figured out that business schools were not producing anybody who was skilled at doing this 'thing' — whatever it was. At the time, I was overseeing training and development at Monitor. In 1991, I merged the

ILLUSTRATION BY LISA SMITH

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training programs for our undergraduate consultants from small liberal arts colleges like Amherst and Swarthmore, and the MBAs we hired out of Harvard, Stanford and Wharton. I put them all into the same program, because there was nothing at all — zero — that the MBAs had learned that was helpful for doing what we were doing.

That's when it dawned on me: business education was not producing people who could tackle messy problems. I said to my colleagues, "Nobody else is training this thinking skill, and I really think it's the 'secret sauce' — the missing piece. We have to start developing this capability!"

I spent most of the 1990s noodling around on what exactly this skill was. I noticed that some of the CEOs we worked with seemed to have enough of a capacity for it that they knew they could hire us to help them out; so I started watching these people closely, taking note of their thinking processes. That's what got me believing that there was an actual form of thinking — which I came to call Integrative Thinking — that I didn't understand entirely, but that existed and was very powerful.

You have said that Integrative Thinking is more than an advantage in the modern world: it might be a necessity. Why is this?

The fact is, if you're going to be special in today's world, you have to go to the next higher-order level of thought from the people around you. Business has become so efficient that all of the basic advantages have been competed away, and the only way to gain an advantage is by solving some trade-off that other people accept. The standard operating procedure is to say, 'We can't have both flexibility *and* speed, so we have to choose one or the other'; but nowadays, you have to figure out how to do both.

During your tenure, 'Design Thinking' emerged as a key aspect of 'a new way to think' about leadership. Do you consider it to be a branch of Integrative Thinking, or a separate skill?

I don't think 'branch' is the right term, but it is under the umbrella of Integrative Thinking. When I finally came to the conclusion of what Integrative Thinking really is — which is, instead of accepting the choices before you, create a new model that contains elements of each, but is superior to both — I then honed in like a laser on the question of, 'What exactly is that creative act that gets you to the new model? How does that creative act happen?'

That's what got me so interested in design. I realized that there are all these people out there creating new models on a regular basis. They're trained to create, say, a logo from scratch; they don't just pick amongst all the logos that already exist. Their job is to create something new. At the same time, most designers would say yes, everything we create is new, but it's not *entirely* new — it contains echoes of other things that came before it. For example, **Apple**'s brightly-coloured iMac computers were manufactured in exactly the same tones as the **Imperial** cameras from the 1960s; it was an homage to those cameras.

So my 'deep dive' into Design Thinking was really a response to peeling the 'Integrative Thinking onion' one more layer. I couldn't very well say to people, 'Go away and come up with a creative solution that is superior to what currently exists' without thinking through, 'what are the basic operating principles of creativity?' By borrowing design methodologies, I was able to say, 'Here is a way to think about getting to that creative answer'.

You have said that the smartest organizations embrace both *reliability* and *validity*. Please explain.

Validity and reliability anchor down opposite ends of a spectrum that defines how solutions are framed. Individuals rarely have a balanced perspective, but rather a pre-disposition towards one or the other.

People with a reliability orientation seek to produce consistent, predictable outcomes from objective data — for instance, predicting a customer's future purchases by using data collected in a CRM system. To produce the highest reliability possible, a system must stick to quantitative, objective data and use of the data that does not involve judgment, because blending subjectivity and judgment leads to inconsistency. So considering 'the mood of the customer' or 'their attitude towards new products' would be seen as an abomination in a reliable system.

Validity-oriented people, on the other hand, seek to produce outcomes that meet the desired objective, even if the system employed can't produce a consistent, predictable outcome. Pursuit of more validity means adding 'squishy' variables and applying judgment or 'gut feel'. It makes me think of the movie *Pirates of the Caribbean*, where **Keira Knightley** says to **Geoffrey Rush**, 'You can't do that! Pirates have rules!' And he says, 'I don't think of them as rules — more like guidelines'. That's what a validity-oriented person would say.

I used to be more disparaging of reliability-oriented people, until I realized that they are the *yin* to my *yang*: I need enough of them around to make sure the train doesn't go careening off the rails while I dream up the way things could be better.

THE INTEGRATIVE THINKER'S STANCE

1. Existing models do not represent reality; they are our constructions.
2. Opposing models are to be leveraged, not feared.
3. Existing models are not perfect; better models exist that are not yet seen.
4. I am capable of finding a better model.
5. I can wade into and get through the necessary complexity.
6. I will give myself the time to create a better model.

You have said that traditional financial planning and reward systems must be modified to create a balance between reliability and validity. How can this be achieved?

Financial planning is basically an exercise in reliability. It says, 'Here's what we're going to do: we're going to sell this much within our budget and we're going to have this much in costs'. My view is, as much as people like to plan for revenues, it's not really possible. At the start of the year, you might decide you want to sell 5,000,000 widgets, but somehow all these people who are free agents out in the world — customers — can decide, of their own volition, whether or not to buy them. You can't force them, and as a result, it's an entirely speculative act to say, "Our revenues will be X." *You don't control revenue*. You know who controls it? Your customers.

This is where validity triumphs over reliability, because how can you make certain that you get those desired revenues? By making truly great widgets! Not just good widgets, but great widgets that lead customers to say, 'I really have to have one of those!'

This is why I have always viewed revenue planning as an almost useless activity. However, you can have some control on the cost side, and this is why I would argue that you have to think about the cost side and the revenue side in very different terms. With the revenue side, you have to ask validity-oriented questions: do we have an offering that is highly compelling? And on the cost side, you can be more reliability-oriented and ask: how should we plan to produce these amazing widgets?

I would also say that lots of reward systems are oriented towards reliability: 'if you achieve this particular number, you will get a big reward'. What this does is, it encourages people to mess around with the books and other things they shouldn't be messing around with to achieve a reliable outcome — rather than focusing on achieving an outcome that is great for the firm, for your customers and for the long term.

Walk into meeting rooms around the world and you will find people defending their 'model' of the way they see things; what should they be doing instead?

People do this all the time, and it's not because they're bad people: it's because we all need to have a certain level of stability in our world. If there aren't a certain number of things we can count on and use as anchors, life becomes kind of weird and Kafkaesque. That's why people have this desire to hang on to things and say, "Well, at least this, I know." There is so much randomness to life that people long for a degree of certainty.

In the world of business, people want to have a sense that the model they hold for what their company does — how it wins, how it treats customers, who its competitors are — is correct. They want to feel like, 'I get this', and as a result, they don't love the idea of asking themselves, 'What if all of this is wrong?' The problem is, when you love your current model too much, you are likely to ignore warning signs that indicate it might not be as valid as it was a year or two ago — because the world has changed, and consumers have changed.

Rather than defending their models, I think what people should do is say, 'Until such time as I have a better model, I am committed to this model; but I recognize that it might be deeply flawed.' Of course, there's an element of cognitive dissonance in that, because people think, 'If the model is deeply flawed, why the heck am I using it?' But if you spend all your time fretting about doing something else, you'll never commit to anything. So you have to take this stance, and constantly take in feedback and make modifications here and there, so that your model sort of 'bobs and weaves' over time.

In recent years you have questioned the very tenets of capitalism. In *Fixing the Game* you laid out five steps that business needs to take (see page 14). Are you seeing any progress in these areas?

I do see some; but the fact is, it has taken us 25 or 30 years to totally screw the system up, and it will probably take a bunch more years to fix it. To use an analogy, it's like you've got this really nice sweater on, but you see a string sticking out, and you pull on it, and it just keeps unravelling until there is nothing left — just a bunch of yarn on the floor. That's what I'm saying in *Fixing the Game*: the more we keep pulling on the 'thread', the more we have to question the very fundamentals of the system; it all unravels.

That's why so many people want to avert their eyes. They don't say to me, 'Roger, you're wrong; your ideas have no merit'. What they say is, 'I really don't want to think about this. Can't we just use longer holding periods instead of stock options and be done with it? Will you just stop talking if we do that?'

People are sort of tweaking around the edges of the current system because it's too painful to contemplate that maybe — just maybe — I'm right, and we need a whole new model. Maybe hedge funds are *really bad* for society, and we've allowed them to become the most powerful and profitable businesses out there.

FIXING THE GAME: FIVE STEPS

1. **Shift the focus back to the customer and away from shareholder value** – back to the real market and away from the expectations market.

2. **Restore authenticity to the lives of our executives** by rethinking executive compensation. Stock-based compensation creates a powerful incentive to keep expectations rising, resulting in executives that manage *expectations* rather than real performance.

3. **Address board governance.** If executives are 'agents', creating agency costs, how can another group of agents – the board – discipline the first group and reduce agency costs?

4. **Regulate and manage expectations-market players more effectively**, most notably hedge funds, which create no value for society. They have huge incentives to promote volatility in the expectations market, which is dangerous for investors but lucrative for them.

5. **Take on a more expansive view of the role of for-profit companies in society**, which entails strengthening the civil foundation – going beyond laws and regulations to make the world a better place.

From *Fixing the Game: Bubbles, Crashes and What Capitalism Can Learn from the NFL*, page 37 (Harvard Business Review Press, 2011).

Of course, in the early days of global exploration, the most profitable business was piracy: pirates sailed around the world stealing all the gold. It is conceivable that we have allowed something that is truly terrible for the world to take shape, and it's hard for people to contemplate that.

You also believe leaders need to take on a more expansive view of the role of for-profit companies in society. Are there current examples that give you hope?

One that springs to mind immediately is **Unilever** and **Paul Polman**. I worked with him in my Monitor days when he was running the laundry category at **Procter & Gamble**. As CEO, Paul has stopped Unilever from publishing full financial results every quarter, and he refuses to offer earnings guidance to equity analysts. He has said things like, "If you don't like it, please stop investing in my company, because I only want shareholders who care about the long term." This is a pretty aggressive stance, when you think about it, and I applaud him.

Another one of my favourite business stories of all time is the letters that **Herb Kelleher** used to write to **Southwest Airlines** customers who complained about not having first class cabins and swanky lounges. He would say to them, "I hear what you're saying, and I really think you should fly with another airline. Thank you, Herb Kelleher."

I think the *bête noire* of all of this is the difference between *maximizing* shareholder value and earning shareholders a *fair return*. The rigid traditionalists characterize me as not caring about shareholders, but , I firmly believe shareholders deserve a fair return. Today we have all these financial methodologies for determining what exactly that is — like the 'risk adjusted required rate of return on equity'. These equations spit out a number and, if you don't earn more than that, you are not compensating your shareholders for risk. However, for some reason, we have gone from 'earn above this base number' to 'earn as much as humanly possible'. Says who?

What this does in the decision-making world is, it shifts the 'objective function' of the corporation from 'make more than this number' to: 'maximize this number'. Of course, when you do this, you can't maximize anything else. Everything else has to be relegated to minima: consumers can't be any less happy than *this*, the government can't be any less happy with us than *this*, we can't mess up the environment any more than *this* — you set all these minima. It all becomes about meeting one objective function, subject to a bunch of other minimum constraints.

What a waste of the objective function! Instead, why not just agree that your shareholders deserve 'at least an x per cent return'? If you're not earning more than that, you aren't doing your job; but as long as you achieve that, you can do other things, too. Then the question becomes, what *should* you be trying to maximize? And in my view, the world would be a much better place (and organizations would be better off in the long term) if they had as their objective function to ratchet up the civil foundation — the laws, conventions and customs relating to behaviour with respect to the environment and society in general. Leaders should pick something that they have the corporate capability to do really well. If you're Paul Polman, that means creating a sustainable supply chain. If you buy all this chocolate, or all this palm oil, or whatever, make the world a better place by having fair trade principles apply.

When you do this, do shareholders lose out? Not at all. Because — and this is the most important insight from *Fixing the Game* — by saying 'Our goal is to maximize shareholder value', you actually *guarantee that you don't*. But if you say, 'I want to earn a fair return for shareholders and make the world a better place', guess what's going to happen? *Shareholders will do better.* This is really an Integrative Thinking moment, because at first there appears to be a fundamental trade-off involved; but there isn't.

In your view, how important is it for today's leaders to think about the concept of *legacy*?

I think of it in terms of some fundamental questions: why are you on this planet? What is your purpose? If you think your purpose is 'to make as much money as possible', it will not be important to you to leave a legacy. But some people say to themselves, 'My job is to leave this world a better place in some small way' in which case, legacy is important; and I guess I put myself in this latter category. But it's a very personal choice.

Looking back on your tenure, what are you most proud of?

Without question, it's the people that I have helped to become the best they can be. The people I have worked with closely have achieved things that I'm pretty sure they never dreamed of, and that makes me insanely happy. At the core, that's what I see myself as: a developer of people. When my head hits the pillow at night, I can say to myself, 'I managed to set the context that enabled these people to do great things'. I didn't make these people great — you can't make anybody great; but you can enable people and set a context for greatness.

What's next for you?

I'm really excited about my project for the next five years, which is to focus on 'the future of democratic capitalism' at the **Martin Prosperity Institute** here at the Rotman School. I think of it as a time-bound project that will have, as its output, concrete ways to tweak democratic capitalism to make it more sustainable, so that people can regain their confidence in it. I'm also looking forward to doing a bit more consulting to senior executives, because I feel like I can help them figure out how to be beacons for other companies. And there is great synergy there, because doing the latter will help me understand how democratic capitalism works best.

Roger Martin ended his term as Dean on June 30, 2013. He is the author of eight books, most recently, *Playing to Win: How Strategy Really Works*, with A.G. Lafley (Harvard Business Review Press, 2013). He is ranked #6 on the Thinkers50 list of the world's most influential management thinkers.