



WHARTON on the Strategic Management



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Strategic Management: Laying the Groundwork for Growth

TRYING TO PREDICT THE BEST PRACTICES FOR MANAGEMENT STRATEGY can be a daunting task for any business leader. However, recent activity and deals at several companies shed light on what it will take to succeed as well as the challenges to look for on the road ahead. The Comcast–NBC Universal merger illustrates how vertical integration is likely possible, but in a new format in which NBCU continues to operate independently, without a long list of synergy plans from Comcast. In the retail industry, Polo Ralph Lauren shows how ramping up operations in Asia will require the perfect blend of what president and chief operating officer Roger Farah calls “left brain/right brain creativity.” And Disney’s acquisition of Marvel Comics highlights how a deal can utilize the strengths of each company. While Disney gets a fresh infusion of content, Marvel’s characters benefit from Disney’s powerhouse of marketing and cross-selling. These examples, as well as recent research by Wharton faculty about the need for more “time alone” to foster innovation and better ways to use global teams, provide strategic insight for executives planning for future growth.

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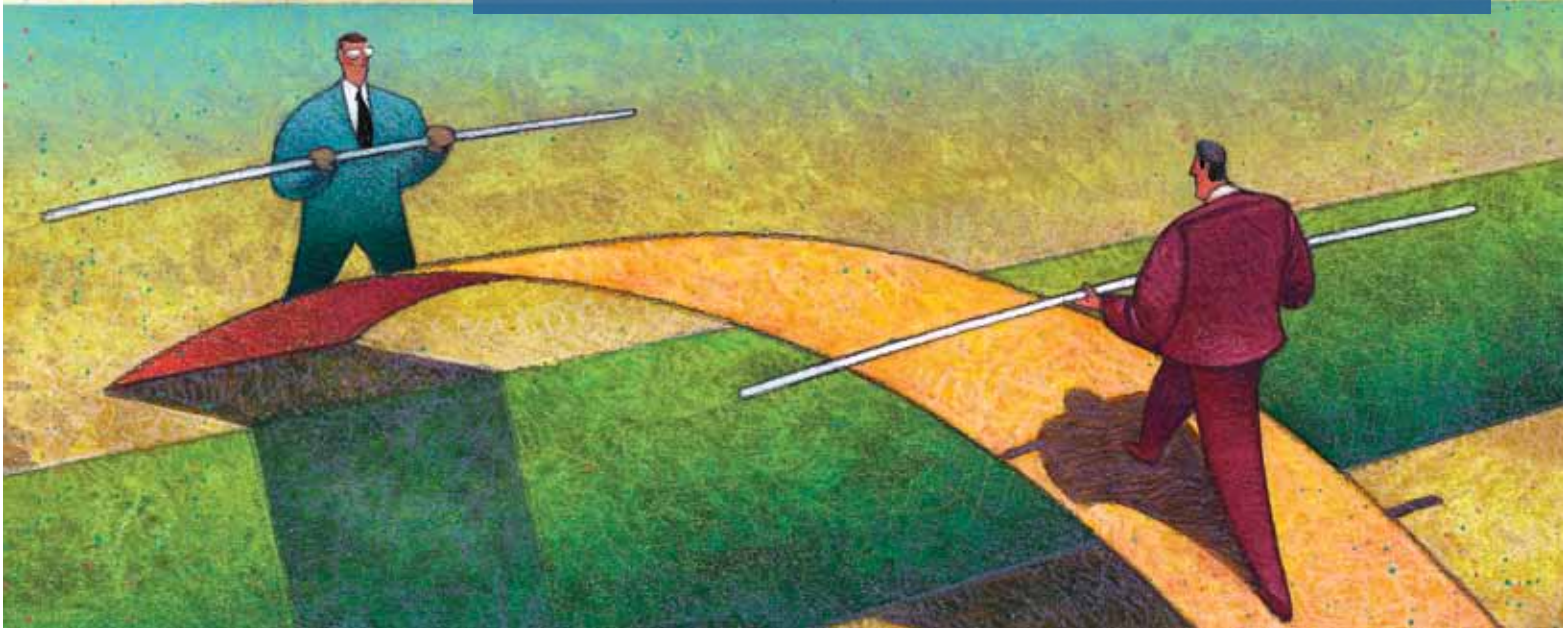
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Global teams can be a powerful tool to link groups together and increase worldwide production. However, when they don’t work well, global teams can bring business to a grinding halt. So it’s important to find ways to make them work better and unlock their value.



Will Vertical Integration Work in the Comcast–NBC Universal Deal?



When America Online (AOL) and Time Warner merged in 2001, hopes for a vertical integration – when one company controls multiple parts of a revenue chain — were quickly dashed. Time Warner never realized any proposed synergies and the cultures of the two companies didn’t mesh. Time Warner later spun off AOL as a public company. With that kind of precedent, the media industry is closely watching as Philadelphia-based Comcast seeks to integrate its cable services with many of the channels it distributes by taking control of NBC Universal (NBCU).

In a \$30-billion deal announced December 4, 2009, Comcast will own 51% of NBCU. General Electric, the network’s previous owner, will own 49%. The new joint venture that will emerge, pending approval from the Federal Communications Commission (FCC) and Department of Justice (DOJ), will give

Comcast a vast array of programming assets ranging from CNBC and USA Network to NBC Sports, Versus and E! Entertainment Television. The move will also make Comcast-NBCU a top-10 web property with 82 million unique visitors and sites like iVillage, DailyCandy, movie ticketing site Fandango and Hulu (an

online video service that provides TV shows and movies from more than 190 content providers) in the fold.

While experts at Wharton question the success rate of vertical integration, they acknowledge that Comcast’s decision to let NBCU operate independently without a laundry list of synergy plans is a positive one. Wharton marketing professor Pete Fader notes that Comcast has no plans to absorb and integrate NBCU into its org chart. In many respects, it will run just as it did under General Electric. Jeff Zucker, CEO of NBCU, will remain at the helm along with his current team of executives.

The deal makes sense without any synergies, Fader says. Comcast executives repeatedly mentioned that their forecasts for returns on the NBCU deal didn’t include any synergy expectations. If any synergies emerge, they will be gravy. “AOL and Time Warner had a merger that was seeking

synergies,” says Fader. “Comcast isn’t coming up with crazy dreams like AOL and Time Warner had.”

Comcast and NBCU are a better cultural match than NBCU and GE, Fader adds. “This one could fit. NBCU wasn’t a bad thing for GE, but the combination just didn’t make sense. Bringing Six Sigma to an entertainment company just doesn’t work,” because entertainment is different than widgets, he notes. “NBC is going from a company that makes turbine engines to one that makes the pipes to the entertainment.”

Cable Meets Content — Again

Comcast has aimed to integrate content with distribution for years. In 2004, Comcast made an unsolicited bid to acquire Disney, only to rescind the offer later. At the time, Comcast said a Disney merger would create “an unparalleled distribution platform and an extraordinary portfolio of content assets.”

Now Comcast has its content portfolio, and the onus will be on the company to prove this media merger is different, say experts at Wharton. “I’m a little suspicious of media mergers, but I’m a fan of the business acumen of [Comcast CEO] Brian Roberts,” says Gerald Faulhaber, a professor of business and public policy at Wharton. “If anyone can make this work,” he can. “This makes as much sense as any content-conduit deal,” adds Wharton legal studies and business ethics professor Kevin Werbach. “It’s hard to bet against Comcast since it has good success with large acquisitions” — such as its acquisition of AT&T’s cable assets in 2002.

Nevertheless, it’s unclear whether Comcast’s cable-meets-content plan will differentiate the company much in the long run. Skepticism lingers about vertically integrated media companies. Stifel Nicolaus analyst Christopher King said in a research note that although the deal makes strategic sense, “we acknowledge the poor performance of past mega-media mergers.”

On a conference call with analysts, Roberts made the case that the new Comcast-NBCU venture will be unique. “Let me stress we really love and believe in the growth of cable and broadband distribution, but we also see real future growth in cable programming and other

forms of digital entertainment. We think the combination of both is a real winner for our shareholders and our customers,” said Roberts. “With this transaction, I believe our company is strategically complete.”

“Comcast has proven it can play the [Internet] game even if it is not known for it.”

Pete Fader, Professor of Marketing, The Wharton School



Comcast-NBCU should not be compared to previous media mergers, added Roberts. “I think this is a different time and a different deal than any previous transaction. And I think there have been many successful examples, like when Time Warner bought Turner [Broadcasting].” Roberts said that critics can choose to look backward at previous media mergers, but Comcast expects a good return on the NBCU purchase without the synergy plans

that doomed previous deals like the AOL–Time Warner merger.

Kendall Whitehouse, director of new media at Wharton, says that most of the properties that NBCU brings to Comcast, such as CNBC, USA Network and Bravo, “are a good strategic fit” in multiple scenarios on cable and the Internet. Also, Comcast has been a content player for years, launching channels such as Versus and the Golf Channel. Faulhaber notes that although the company hasn’t received much credit for doing so, it has proven it can manage content assets well.

One potential challenge awaiting Comcast will be negotiating deals with networks such as Disney’s ABC and CBS, now that Comcast owns a competitor. “Dealing with ABC and CBS will be a tricky balance,” says Whitehouse, who notes that the discussions will not be as clean as if Comcast didn’t own a competing broadcast network.

Dumb Pipe Defense?

Experts at Wharton agree that Comcast’s purchase of NBCU is at least partially driven by worries that the company’s cable infrastructure could become a so-called “dumb pipe” that gets commoditized. Under a dumb pipe scenario, Comcast would lose pricing power and merely become a means to deliver TV and Internet services. That’s why adding content to the mix is key, faculty say.

“In the long run, it’s unclear what will save cable TV. There are so many alternatives to cable, which in the end is just another pipe,” says Joe Turow, a professor at the Annenberg School for Communication at the University of Pennsylvania. What remains to be seen is whether purchasing NBCU really gives Comcast a hedge against becoming a dumb pipe. “It’s a hedge against being just a distribution company,” suggests Fader. “It won’t be enough anymore to just be a distributor of content.”

Werbach agrees. “Any time a network provider acquires content, it’s at least partially because it doesn’t want to be viewed as a dumb pipe. . . . Any deal is partly about not going the way of the music or newspaper industries” with their outdated and failing distribution models, he notes.

However, Faulhaber says it's unlikely that the purchase of NBCU will greatly change the long-term prospects for the cable industry. "How does this affect the dumb pipe problem? I'm not sure the NBC deal does anything." Faulhaber argues that the dumb pipe issue will be more likely cured by Comcast's ability to make its broadband network smarter for consumers by becoming more interactive and providing value added services.

Another potential threat to Comcast's relevance is television content delivered over the Internet, or Internet Protocol Television (IPTV), adds Faulhaber. Services like Hulu could ultimately be viewed as a substitute for cable service. Ironically, Comcast will hold a stake in Hulu, which was launched in March 2007 by News Corp. and NBC Universal. (Disney joined as an investor this year.) Faulhaber notes that the video market is changing and the upheaval will accelerate once high-definition video downloads become realistic. "The cable guys need some answer to IPTV. The NBCU deal could be a step in finding that answer, but I'm not sure Comcast needs to necessarily own content."

Regulatory Approval

A more immediate hurdle for Comcast and NBCU will be regulatory approval. Wharton faculty say it is likely that regulators such as the FCC and DOJ will approve the purchase, but it's unclear how long the process will take and whether there will be concessions. Analysts expect the approval process to take a year.

One reason the deal is likely to be approved is that there will be minimal impact on consumers. "The consumer won't see anything different in much the same way the viewer didn't notice when GE owned NBC," says Fader. In addition, Comcast won't have excess market power with NBCU in the fold. "It's

hard to see why regulators would stop the deal," says Faulhaber. "Time Warner has a bigger content stable and Comcast is a long way from real market power." He adds that the FCC's program access rules dictate that Comcast cannot deny consumers content by, for example, not distributing ABC or CBS.

Werbach also expects a thorough review that results in approval. "It's clear the FCC and DOJ are more aggressive about antitrust issues, but I don't see this as different in kind to other deals that have gone through."

Roberts is certainly betting that way. "We believe this is an approvable transaction. It is pro-consumer," he said on his conference call with analysts. "We are already in the business of cable programming; there are rules that surround making the content available to others and nondiscriminatory." In addition, Roberts said Comcast is committed to the free, over-the-air broadcast and affiliate model. "I believe that there will be a thorough review that is obviously appropriate; there will be conditions. But we do not foresee, nor would we want to proceed, if they had a material effect on the company, and we don't anticipate that occurring."

The Future of Media

While much of the initial focus on the Comcast-NBCU marriage has revolved around cable programming assets, the combined company's digital properties may ultimately become more important for its long-term survival. For instance, Whitehouse notes that Comcast-NBCU will have enough assets like Hulu, iVillage and a bevy of cable properties' online sites to create enhanced digital services on the web. "This deal could help Comcast with its 'TV Everywhere' strategy," which seeks to deliver cable programming on demand via the Internet, he says.

Indeed, according to Comcast, the combined company will be a leader in online content for the women-lifestyle category, No. 3 in the news and entertainment categories and No. 7 in sports based on unique visitors.

Stephen Burke, chief operating officer at Comcast, spoke during the analyst conference call about how NBCU fits in with TV Everywhere. Burke said that NBCU-owned cable channels such as CNBC, MSNBC and Bravo would be delivered via TV Everywhere. NBC network shows and other free broadcasts would be delivered via Hulu. "I think in a way Hulu and TV Everywhere are complementary products, and the way NBC Universal [is] managing [content distribution] is very similar to the way we would want to do it when the two companies come together," he noted.

What remains to be seen is how Comcast and NBCU will mash up their web properties to create new services and online delivery models. On the analyst conference call, Burke said owning more content will lead to more on-demand online offerings. In addition, Comcast-NBCU will also forge ahead on interactive TV advertising and applications. "We are big believers in trying new things and trying to come up with innovative ways to get content out over these platforms."

Fader says that those digital combinations could be powerful. For instance, Comcast-NBCU could do interesting things with properties such as Fandango, owned by Comcast Interactive Media (Comcast's online division which includes — in addition to Fandango — Comcast.net, Fancast, DailyCandy, thePlatform, and social networking site Plaxo), and NBCU's vast movie library. "The web is a big part of this," says Fader. "Comcast has proven it can play the [Internet] game even if it is not known for it." ❀

How Polo Ralph Lauren Plans to 'Reinvent' Itself in Asia

It's not too often that you hear about a company that not only survived the economic turbulence of the last few years, but actually thrived in it. But that is exactly how Polo Ralph Lauren president and chief operating officer Roger Farah described his company's experience when he spoke last spring at the University of Pennsylvania's Fashion Week, an event co-sponsored by Wharton. Discussing the \$5 billion company's major push into the Asia-Pacific region, he talked about how the company is preparing to build a powerful operation there that he expects will generate one-third of the company's revenues in 10 years.

"Where others were groaning under the weight of loans and borrowed money and working capital constraints, we continued to invest during the last crisis. We did not take our foot off the gas pedal at all," he said. "We are on a 10-year path to reinvent ourselves in Asia."

Succeeding will require the perfect union of what Farah called "left brain/right brain creativity." And in many ways that

is what Farah's partnership with founder Ralph Lauren has been all about. Started 43 years ago when Ralph Lauren began with a simple line of ties, Polo Ralph Lauren evolved into a mega-brand that represented an almost *Great Gatsby*-like American lifestyle. The company went public in 1997, but immediately stumbled, missing earnings estimates. The stock, which hit the market at \$33, was mired in the teens when Lauren hired Farah in 2000.

Farah brought a heavy dose of left brain business acumen to Polo Ralph Lauren. Fresh off his job as chairman of Venator Group, the company that would eventually become Foot Locker, Farah began upgrading the less sexy but critical aspects of the business, including supply chain management, technology and distribution. He also began the process of reclaiming control of the Ralph Lauren brand, buying back licenses for the company's products in Europe and other markets. "We had 1,000 employees when I joined in 2000, and now we have 18,000," Farah said in an interview with Knowledge@Wharton before his speech. "We developed the management, and we have the balance sheet and talent to run all these businesses now."

Polo Ralph Lauren today is an amazingly complex machine, he noted. "It is manufacturing, transportation and logistics; currency hedging and financial controls, as well as all the things that go into what the customer actually sees." The company has what Farah described as a pyramid of brands, with Ralph Lauren's expensive runway collection at

the top. That collection, which includes handmade products using the best materials, has limited distribution. Suits, sportswear and other premium items occupy the middle of the pyramid, and products designed for Kohl's and JC Penney are on the lower rung. The company produced 175 million products last year in 45 countries and shipped them to more than 9,500 different points of distribution around the world.

On top of that, Polo Ralph Lauren handles advertising and store design in-house, requiring a large internal advertising team and an army of architects and design professionals who not only design the stores and displays for the company's products, but also scour the world for antiques and flea market finds to make those settings unique. "I can stand here with great confidence and tell you nobody who has stood here before me has ever [handled] that kind of complexity," Farah told the crowd.

The level of intricacy will only grow as the company begins its offensive in Asia. Farah is hoping to replicate the success Polo Ralph Lauren has had in Europe. After buying back some core apparel and accessory licenses there 10 years ago, the company pumped hundreds of millions of dollars into its operations and built a business that had been just a couple hundred million dollars into a nearly billion dollar operation. On April 15, 2010, the company opened a 13,000-square-foot flagship in an historic district in Paris. The progress came despite skepticism that Lauren's distinctly American image would play well overseas. Farah noted that the brand now portrays less of an American-centric ideal and more of an "aspirational lifestyle" in general. Still, he acknowledged the company is wrestling with how to penetrate the Asian market, a push he said will require customizing some products, from color to fit, for clients in that region.

Of all the challenges Asia presents, however, finding the right people to lead the charge is one of the greatest, Farah stated. To build and manage the business he envisions there, Farah calculates that Polo Ralph Lauren will need an army of thousands of people. "We talk about attracting and developing talent, [but] it is easier to talk about than to do." That's one reason he advised

students in attendance to think about what the growth of Asia means for their own careers. "When I talk to young people at our company, I say part of our strategy is global, and that may mean over time an opportunity for you to work internationally. They all say, 'Great, I'd love to go to London or Paris'. Well yes, but there may be other parts of the world that have opportunities as well."

company announced full year revenue would decline by a low single-digit rate — better than the mid single digit figure expected earlier.

The turmoil of the last two years is certainly impacting how people spend their money, Farah added. "I think the real change in this is not the wealthy customer spending money differently. It is the customer who was operating

"People were spending more than they were making. The U.S. was the only developed nation in the world [in that position]."

Roger Farah, President and Chief Operating Officer,
Polo Ralph Lauren



Riding Out the Recession

Polo Ralph Lauren's ambitions for Asia aside, Farah also acknowledged that the recession has had an impact on the company. Net revenues for the first nine months of fiscal 2010 were down 4% to \$3.6 billion, due in large part to the broad drop in consumer spending. Still, the company's financial footing is solid with \$1.3 billion in cash and short-term investments on hand. In February, the

on borrowed resources. Whether it was excessive credit card debt or home equity loans, [spending by] the segment of the population that was spending today because tomorrow was going to be better . . . has changed. I think people will spend more in line with what their real income and prospects are." And that, he said, will be a long-term positive factor for the U.S. economy. "The U.S. savings rate will go up. I think it had gone negative in 2007 and 2008, which

means people were spending more than they were making. The U.S. was the only developed nation in the world [in that position].”

Farah suggested that the reach of Polo Ralph Lauren’s brands from high end couture to mass market retailers, like Kohl’s, positions the company well for that shift. “We were already balanced in a way that allowed us to capture changing consumer sentiment,” he noted. “We did not change prices and we did not change marketing or distribution strategies. We obviously managed our balance sheet and our expenses carefully. And we probably shifted some capital to international opportunities. So we are spending proportionally more internationally and less domestically.”

While Farah considers himself the left brain discipline to founder Ralph Lauren’s right brain creativity, he also has a true love of the retail world. He told the crowd that back in 1974 when he left Wharton for a job at Saks Fifth Avenue (he finished his studies early but returned in 1975 for

the formal graduation ceremony at the urging of his mother), most of his fellow students were headed to Wall Street or consulting jobs. He figures his starting salary — \$8,600 a year— was one half to one third of what others in his class were earning. “A lot of people thought I was crazy. I took a path that was unproven and untested.” But Farah said he knew it was the right road for him. “One of the things that was clear to me was I wanted a diversified day. . . . And over the course of my career what has been particularly satisfying to me was I had a hand in marketing, finance, design and distribution.”

He insisted that retail was also a great place to test yourself. “Retailing at the time was one of the few businesses where you could operate a fully integrated [company] at 23 or 24 years old. You had product, marketing, distribution and a P&L [profit and loss] statement. Here’s your name and here are your results. I thought that was important.” He started out at Saks and was president of Rich’s/ Goldsmith’s Department Stores by the

time he was in his mid-thirties. After years with Federated Department Stores, including some of that time running Macy’s, Farah left to head up struggling retailer F.W. Woolworth. In 1997, Farah shuttered the remaining Woolworth stores, focused the company on its Footlocker franchise and renamed the business Venator Group. In 2000, he made the leap to Polo Ralph Lauren.

Having witnessed the end of a once great retailer like Woolworth, Farah noted that Polo Ralph Lauren’s longevity is a rarity. “I was a student here in the mid 1970s, and unfortunately most of the brands that were important then are no longer in business. Part of the reason for that was they did not properly control the distribution and pricing of their brand.” As for the greatest challenge facing Polo Ralph Lauren today, “Our risk is really in the execution,” Farah said. “While we have executed well to this point, we are looking to do some pretty big things. And as a company I think one of our in-house challenges is [asking whether] we are taking on too much at once.” ❀

Will the Disney/ Marvel Merger Have a Fairytale Ending?



With Marvel Comics' 5,000 characters and Disney's strengths in marketing and cross-selling, their \$4 billion merger seems practically destined to have a fairytale ending. Wharton faculty and entertainment analysts predict Disney's acquisition of Marvel will overcome some major challenges and help the company enter a key market where its presence has traditionally been weak.

The merger, announced August 31, 2009, provides a fresh infusion of content into Disney's global entertainment distribution and marketing colossus, including its signature theme parks and film studio as well as the ABC and ESPN television networks and vast consumer products offerings.

"It's a good move when you look at what Disney has and what Marvel has," says Wharton management professor Lawrence Hrebiniak. "Disney will distribute and build strategically on

Marvel's content." In addition, Disney's size — \$38 billion in annual sales — provides enough market power and cash flow to build new business out of other characters that are as yet undiscovered, he adds.

Besides Disney's ability to propel Marvel characters through its many distribution outlets, Wharton marketing professor Eric Bradlow sees the addition of Marvel's manly superheroes and villains as a way for Disney to slip instantly into a market where its presence is weak — teenage

boys and young adults. The company has already enjoyed success with girl-oriented fare such as its *Hannah Montana* and *High School Musical* franchises.

Earlier this year, Disney repositioned its Toon Disney cable television channel to appeal to older boys and teenagers. Now called Disney XD, the channel offers a mix of animated and live-action entertainment that also blends into online and mobile platforms. "Marvel is a natural product-line extension into another genre," says Bradlow. "It makes Disney the one-stop shopping place as consumers move through their lifecycle, from babies to toddlers to kids and teenagers to young adults."

Disney's strategy, he notes, is to build on the company's brand equity among very young children and carry that through their lifetimes by way of theme parks, movies, television and multi-media outlets. In addition to traditional media, Bradlow points out that all companies

— particularly those in the entertainment and media business, such as Disney — are stepping up their presence to market across many media channels, including the Internet and mobile devices. “Firms are recognizing they have to meet customers everywhere, all the time,” says Bradlow. To do that, he adds, requires vast amounts of content.

Wharton marketing professor Jehoshua Eliashberg agrees that the upside of the proposed merger is the addition of new properties that can be developed through Disney’s many marketing and distribution outlets. “Disney can put them, not only in theaters, but also on television and in theme parks and consumer products. That machinery, which Marvel does not have, helps get more benefit from the characters.”

The challenge for Disney, he suggests, is that the market for super heroes, developed through comic books over several generations, is more established and crowded than the market for female fare that Disney has exploited so well with such stars as *The Little Mermaid* and *Pocahontas*. Characters like Superman and Batman, which are controlled by Disney competitor Warner Bros., are already being mined for four to six major films, including sequels and prequels.

“These are well-established characters. Any new character Disney will develop for Marvel will have to compete against them. In addition, Marvel is currently locked into licensing and development agreements with Fox, Sony, and other Disney competitors for many of Marvel’s crown jewels, such as *X-Men* and *Spider-Man*. Disney is left with perhaps the lesser-known characters,” says Eliashberg. The company’s challenge is to “take the lesser known characters from a comic book and make a successful film, then capitalize on that in television and theme parks. It takes a lot of time and it’s not easy.”

Meanwhile, “if Disney decides to co-produce a movie such as *X-Men*, which is under a deal with Fox, there may be cultural clashes between the different filmmakers,” says Eliashberg. “My expectation is that Disney is a mighty entity, and it will want to demonstrate that it can develop characters on its own. I don’t think they will take a hands-off approach.”

No Rehab for Mickey

Wharton management professor Daniel A. Levinthal acknowledges the challenges ahead, but suggests that if any company can make unknowns into superstars, it is Disney, which he says operates like an

“If you are trying to develop Marvel characters and ‘Disneyfy’ them, you don’t want to be faced with the possibility of a renegotiation four or five years down the road.”

Daniel A. Levinthal,
Professor of Management,
The Wharton School



old-time Hollywood studio developing unknown — and low-priced — talent into megastars. “Nobody ever heard of Hillary Duff or Miley Cyrus. Disney signed them as cute, perky, but unknown 14-year-

olds for five- or six-year contracts, then created awareness and built a franchise around them.”

Rising Marvel characters, he says, could provide a return on Disney’s investment for years, while animated characters have an advantage over live-action stars: “Mickey Mouse doesn’t have an agent or go into drug rehab.” At the same time, Disney will need to be careful, as it integrates Marvel into its fold, that it doesn’t choke off the culture of the comic book company that gave birth to the bold characters Disney now desires.

Wharton management professor Saikat Chaudhuri believes Disney’s broad strategic goal, which focuses on using Marvel’s assets to extend its reach into new markets, is sound. However, he wonders whether Disney may be paying too much for the full company when it might have been able to gain access to what it wants from Marvel through licensing or joint venture agreements.

In 2006, he notes, Disney acquired Pixar Animation Studios for \$7.4 billion after they had been in a 15-year partnership to produce and distribute animation films, including *Toy Story* and *Cars*. “In general, I applaud Disney for taking some action, but I’m a little bit concerned that this is very expensive,” says Chaudhuri. “They could have tried another mode of engagement or some other partnership first. Then, if that were successful, they could move to the acquisition phase.” A full-ownership structure is better used in cases where two firms are working closely on development — for example, combining two technologies to create a new product, he adds.

According to Levinthal, however, Disney’s experience with Pixar may have influenced its decision to choose acquisition over a lesser commitment. He notes that after years of working together to develop strong brands, such as the *Toy Story* characters, Pixar wanted to renegotiate terms of the partnership. “It seems to me Disney had just been through a complicated relationship with Pixar, which started out as a joint venture but led to some disagreement and ended finally with Disney buying Pixar. If you are trying to develop Marvel characters and ‘Disneyfy’ them, you don’t want to be faced with the possibility of a renegotiation four or five years down the road.”

A Flagging Film Studio

Michael Morris is an analyst at UBS who follows Disney. He suggests that despite Marvel's licensing commitments for many of its properties with other studios, Disney has numerous opportunities to build on well-established names. For example, he notes, Marvel has retained the television and global consumer rights for Spider-Man, assets that Disney is well-positioned to exploit. He also estimates that Marvel turns over as much as 25% of the revenue on consumer products to other companies which could be captured through Disney's extensive distribution and marketing networks within a year of the deal's completion.

Morris also argues that the addition of Marvel characters to Disney's content war chest could help the company's film studio, which has not kept pace with competitors. It earns, on average, \$66 million per film compared to \$108 million for the other five leading studios. In a report on the proposed acquisition, Morris writes: "Many of Disney's live-action films in recent years have left something to be desired, particularly relative to the successful content in other areas of the company (animated films, ESPN, *High School Musical*, Hannah

Montana). . . . We believe the company will [retain] the same number (or perhaps fewer) live-action films on its slate, keeping enough to fully utilize studio infrastructure while increasing focus on branded, franchise characters."

In addition, Morris says Disney will have the right to create animated films based on characters for which Marvel has signed away the live-action rights to other media companies. Other licenses will remain with third parties, according to Morris, including some video game development rights. However, he adds, the Marvel purchase makes it less likely that Disney will invest in a video game publisher in order to build its multi-media channels.

Indeed, the growing number of distribution channels presents an expanding frontier for Disney, although negotiating those agreements will be complicated, says Levinthal, adding, "I can imagine this would keep the lawyers on various sides busy." For example, an agreement might state that a character is licensed for use in video games. What if the game is designed to be played on the Internet rather than on a standard console? "Is that the other side of the boundary or not? New media applications can raise some interesting opportunities

for Disney, but I imagine the existing rights holders will make some claims."

A Major Coup

Disney's bid for Marvel has triggered speculation that the deal will set off a spate of other entertainment industry consolidations as rival firms feel they need to increase their scale to compete with Disney, or snap up potential partners before another firm does. "My gut reaction is that other companies, like Warner Bros., will have to jump in" and take some action, says Hrebiniak. "This is a major coup for Disney."

While acquisitions have been less frequent as a result of last year's financial collapse and corporate conservatism during the recession, Disney and others may be beginning to feel more optimistic about future business and willing to invest in properties before asset prices begin to rise again, says Hrebiniak. "They feel, obviously, that it's a good time to move. Others will be scared by this, viewing it as a move that they will have to counter to check the size and capability of Disney in the future. We'll see what Warner Bros. does — whether they push their own superheroes or do an acquisition to keep up with Disney." ♣



Why Employees Need More Time Alone for Innovation

While companies might choose to have 10 good salespeople over just one superstar, the opposite is true when it comes to innovation. When trying to come up with the next big thing, what really matters isn't finding a lot of decent ideas, but getting one or two exceptional ideas. To do that, companies should place less emphasis on group brainstorming and allow for more time alone, according to Wharton research.

In a paper titled, "Idea Generation and the Quality of the Best Idea," Wharton operations and information management professors Christian Terwiesch and Karl Ulrich argue that group dynamics are the enemy of businesses trying to develop one-of-a-kind new products, unique ways to save money or distinctive marketing strategies.

Terwiesch, Ulrich and co-author Karan Girotra, a professor of technology and

operations management at INSEAD, found that a hybrid process — in which people are given time to brainstorm on their own before discussing ideas with their peers — resulted in more and better-quality ideas than a purely team-oriented process. More importantly for companies striving for innovation, however, the trio says the absolute best idea in a hybrid process topped the Number One suggestion in a traditional model.

Although several existing experimental studies criticize the team brainstorming process because of the interference of group dynamics, the Wharton researchers believe their work stands out because of a focus on the quality, in addition to the number, of ideas generated by the different processes — in particular, the quality of the best idea. They say the research is also distinctive in its study of how teams select the most promising initiatives that come out of the brainstorming phase.

"The evaluation part is critical. No matter which process we used, whether it was the [team] or hybrid model, they all did significantly worse than we hoped [in the evaluation stage]," Terwiesch says. "It's no good generating a great idea if you don't recognize the idea as great. It's like me sitting here and saying I had the idea for Amazon. If I had the idea but didn't do anything about it, then it really doesn't matter that I had the idea."

‘The Boss Is Always Right’

Forty-four University of Pennsylvania students were recruited to help test how the two processes fared. The undergraduate and graduate students were divided into groups of four and asked to employ the hybrid process and team process separately to come up with student-friendly new product concepts for a hypothetical sports and fitness products manufacturer and for a hypothetical home-products manufacturer. Teams were given 30 minutes to brainstorm using the traditional group process. To test the hybrid model, they were asked to spend 10 minutes generating and ranking ideas individually and 20 minutes discussing those thoughts as a group.

The ideas generated by both methods were evaluated independently, by three separate panels asked to evaluate the product ideas on their business value; attractiveness to potential customers and overall quality based on the feasibility of actually building the product; the idea’s originality; the size of the potential market for the product, and the extent to which it solved a particular problem. The students came up with a total of 443 ideas — including a trash can that reduces the odor of the garbage inside it, a water bottle with a built-in filtration system and a waterproofing system that allows for reading in the shower.

Business leaders trying to integrate innovative ideas into their office culture can learn from the structure and intricacy used to generate and evaluate the ideas, suggests Terwiesch. He and Ulrich are also co-authors of the book, *Innovation Tournaments: Creating and Selecting Exceptional Opportunities*, which suggests that companies should use coordinated competitions to filter the most exceptional proposals. He says an online system that creates a virtual “suggestion box” can accomplish the same goal as long as it is established to achieve a particular purpose. “People like having a process because they understand that it’s fair. In a typical brainstorming meeting, it’s not fair and everybody knows it: The boss is always right,” Terwiesch says.

Imposing structure doesn’t replace or stifle the creativity of employees, Ulrich adds. In fact, the goal is to establish an idea generation process that helps

to bring out the best in people. “We have found that, in the early phases of idea generation, providing very specific process guideposts for individuals, [such as] ‘Generate at least 10 ideas and submit them by Wednesday,’ ensures that all members of a team contribute and that they devote sufficient creative energy to the problem.”

The results of the experiment with the students showed that average quality of the ideas generated by the hybrid process was better than those that came from the team process by the equivalent of roughly 30 percentage points. The hybrid method resulted in

the quality of the best ideas is likely to underestimate the benefits of the hybrid approach,” the authors write.

Terwiesch says notions spawned through an individual brainstorming process are valuable thoughts that must not be “killed too early because of group dynamics. Your initial thoughts are very vital to the company because they are your unbiased opinion.”

Self-Censorship and Build-Up

There are several reasons why people are less likely to offer an unbiased opinion in a purely team-based brainstorming process. Employees might censor

“In innovation, variance is your friend. You want wacky stuff because you can afford to reject it if you don’t like it.”

Christian Terwiesch, Professor of Operations and Information Management, The Wharton School



about three times more ideas than the traditional method. In addition, the quality rating was higher for the top five ideas produced through the hybrid process — and the difference in quality between the team and hybrid methods in terms of the best idea was much higher than the average difference in quality, suggesting that “in an innovation setting, examining only [average] quality as opposed to

themselves to go along with the status quo or to avoid angering a superior. Putting several people in a room together is bound to create a lot of conversation; if everyone contributes, there is less time for individuals to share all of their ideas. Some people may think less critically about a problem because they are happy to let others do the heavy lifting.

“We’re fighting the American business model where everybody is [creative], which is just not the case,” Terwiesch states. “We find huge differences in people’s levels of creativity, and we just have to face it. We’re not all good singers and we’re not all good runners, so why should we expect that we all are good idea generators? But it’s not politically correct to say so, even though there is more to being a good businessperson than generating ideas.”

In addition to idea quality, the researchers tried to measure one of the predispositions

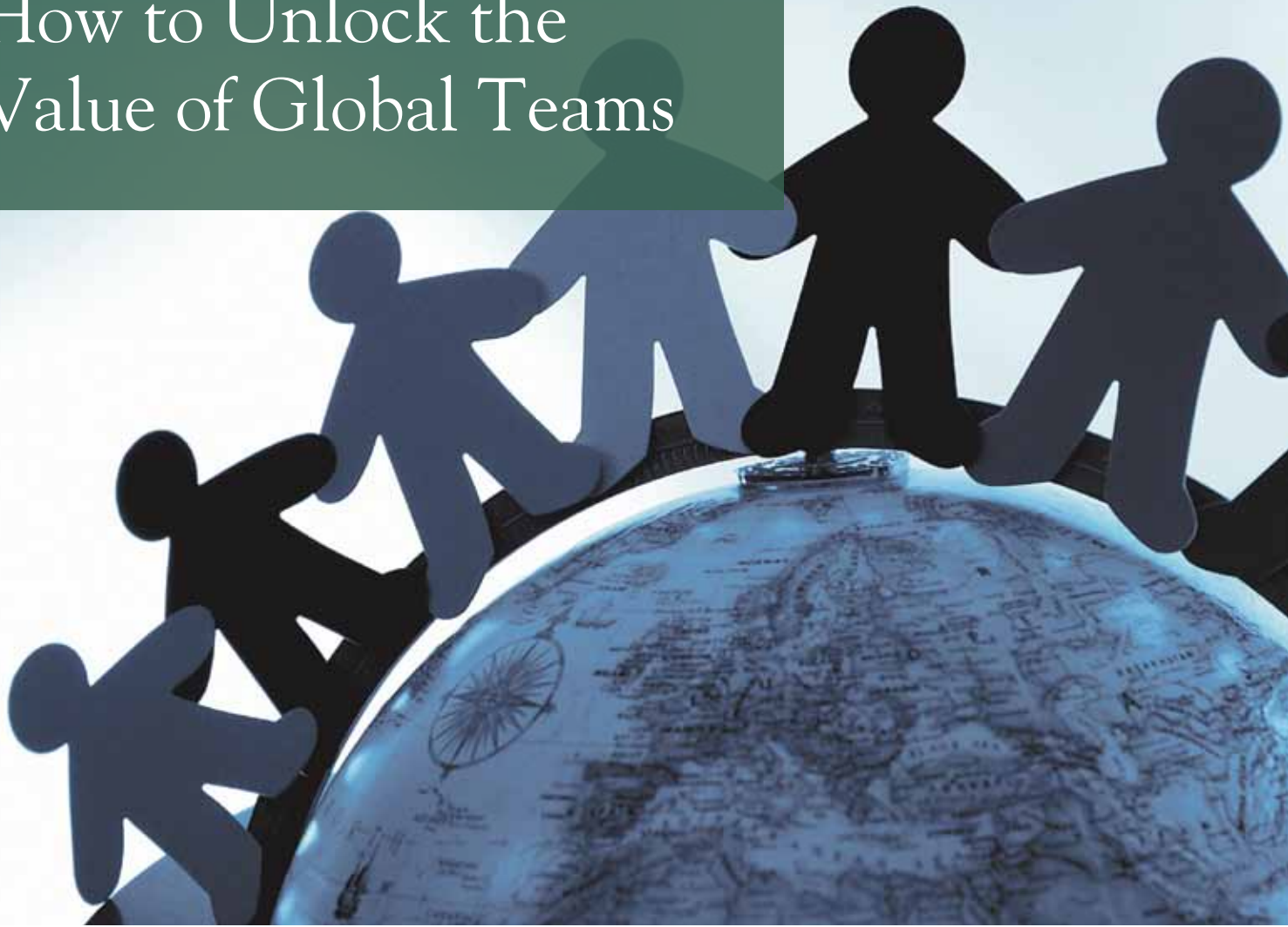
of group dynamics that they believe creates a roadblock to innovation — build-up, or the tendency of people to suggest ideas similar to one that has already been proposed, and embraced, by the unit. They found that ideas built around other ideas are not statistically better than any random suggestion.

Build-up, Terwiesch believes, “is a social norm showing that you listened. If a group is working together on an idea that’s already on the table, you’re wary of coming in with your own agenda because you might be seen as selfish and not a

team player. So you build on the idea that is currently on the table.”

But that kind of thinking is what keeps the team from doing the kind of “sky’s the limit” thinking that leads to the development of a product or process that hasn’t been seen before. “Instead of searching the world broadly, we are all kind of searching only in this little sphere,” Terwiesch says. “In innovation, variance is your friend. You want wacky stuff because you can afford to reject it if you don’t like it. If you build on group norms, the group kills variance.” ❀

How to Unlock the Value of Global Teams



Global teams can be a powerful tool to link groups together and increase worldwide production. However, their potential for dysfunction also poses a great risk to companies. When they don't work well, global teams can bring business to a grinding halt.

"In any team, there are lots of barriers to effectively working together, and there are ways to make teams more effective through selection, through design, through leadership," says Wharton management professor Nancy Rothbard. "The challenges are really exacerbated in global teams where you have even greater potential barriers, especially when there are different cultural norms."

Working across international, cultural and organizational boundaries presents daunting challenges on a variety of levels. Time zone differences can make meetings difficult. Language and

cultural differences sometimes lead to communication problems. And a variety of less obvious differences trip up global team members in ways they rarely expect.

Despite such difficulties, global teams — in all forms — are here to stay. Whether it's a small task force within a single company, a cross-border partnership or a multinational coalition of leaders spanning several organizations, global teams have become an essential element of modern business. "They're often a necessity," says Rothbard. "You may need those diverse cultural perspectives to solve a cultural problem. . . . We need

to find ways to make these teams work effectively. We need them to get the work done as the world becomes a more global place."

When done right, global teams can be an asset, unlocking tremendous value for companies that use them. "Global teams are able to take advantage of people not being in the same place at the same time, in order to get the work done," says Batia Weisenfeld, a management professor at NYU's Stern School of Business. "Projects can be progressing 24 hours a day. You'll be doing software development in Silicon Valley and then the software testing is being done in India while those people [in California] are sleeping."

Global teams can also ratchet up creativity and innovation by tapping into unique skill sets and multiple points of view. Weisenfeld points to one New York advertising firm as an example. The firm's New York office developed

what was supposed to be a worldwide advertising campaign. But the campaign probably wouldn't sit well culturally for Asian consumers, the company's Asia office advised. So team members in Asia tweaked the campaign to accommodate local tastes. In the process, they improved the campaign so much that headquarters ultimately replaced the original campaign with the Asian version.

Unlocking Value

Despite such potential, global teams pose challenges that must first be overcome.

One of the most common issues is time. When team members are scattered across several time zones, simply scheduling a meeting can be difficult.

Consultant Ana Reyes is a partner of New Worlds Enterprise LLP, lecturer in the Penn Organizational Dynamics Program and academic director for a program offered by Wharton's Aresty Institute for Executive Education called, "Leading Virtual Global Teams." Reyes once experienced a timing and communication snafu when working as a consultant for a large multinational corporation. The company, which had offices in several U.S., European and Asian locations, usually held global teleconferences in the morning New York time. Since team members in Asia attended the meetings in the evening, they usually used their personal phones at home. When it came to scheduling a meeting via videoconference, however, things became very complicated. Asian team members didn't have videoconferencing equipment at home, and discovered — weeks, unfortunately, after their meeting was scheduled and the agenda was set — that they couldn't use the video equipment in their office building because it was locked at night. "To get the video conferencing, they had to hire technology support and security for the building," Reyes says. In the end, the company decided it would be easier to just fly people to New York.

Organizations often assume that global team members are willing to meet when it's convenient for headquarters, says Catherine Mercer Bing, CEO of ITAP International, a Newtown, Pa.-based consulting firm that "works at the intersection of business and cultural issues." The unfortunate result for some team members: Every meeting takes

place in the middle of the night or at the crack of dawn.

"It becomes [demotivating] for those team members who always have to be available at 4 a.m. or some other off-work hours," Bing says. Her suggestion: Start global conference calls by asking what time it is for everyone involved, to make everyone aware of other team members' situations. Also, change meeting times frequently so that everybody has a chance to attend a meeting during the day. "Rotate," she suggests. "It makes it fair. It makes team members feel more equitable."

it might just [mean they're] being deliberative. What people mean, and how [others] interpret what they mean, is very subtle. The speaker might have no idea that their words are being interpreted in a certain way."

Depending on a person's cultural background, fellow team members might seem to be speaking too loudly or softly, interrupting too much or being too reticent, demanding a ridiculous amount of information or being oddly ambiguous.

"Everybody is programmed by the cultures they grew up with," says

"There is evidence that when people have even just one face-to-face meeting, it makes virtual teams work much more smoothly."

Batia Weisenfeld, Professor of Management, Stern School of Business, NYU



Tackling cultural differences can be much more of a challenge. When global teams include more than one culture, team members carry unspoken assumptions that can lead to inadvertent misunderstandings. After all, the type of information people share and how they share it is culturally based, says Rothbard. "Hesitation in voice in one culture might signal discomfort with what is being shared. In another culture,

Reyes. Studies have shown that people from Latin American, Middle Eastern and Mediterranean countries speak several decibels louder than other cultures. In many of these countries, interrupting is considered an acceptable way to exchange turns in conversation. "These communication patterns . . . become annoyances that people can't figure out, so people often ignore [them]. And best practice is to talk about them."

Cultural differences also impact the way global teams communicate information to others outside of the team — another possible source of conflict. Bing once worked with a global team with members in the U.S. and Spain. Consistently throughout the project, the Spanish team members would copy their superiors in emails about what the team was doing. Members of the U.S. team misinterpreted the move as attempts to undermine team efforts. “The U.S. [team members] were saying, ‘You guys are trying to get us in trouble,’” Bing recalls. “But part of who gets copied is a cultural decision.” The misperception ultimately caused so much conflict between members that the team missed a project deadline.

Cultural differences even creep into the technologies companies use, creating additional challenges for interaction, Reyes says. “Culture is really pattern-based ways of organizing space, time, human activity and the material environment. So technology — any kind of technology, whether it’s a robot or a technology system — [involves] human practices that have been disembodied and put into a machine.”

Barriers to Sharing Knowledge

While cultural differences may stand out as an obvious stumbling block for global teams, differences in other areas also drive teams apart, experts point out. “Each person is likely to be situated in a very different context so their assumptions may be different,” says Weisenfeld. “Some of those may be cultural, but they can also be legal or societal.”

For example, when organizations in Europe restructure, one of the first things to come up in discussion is labor unions. This is not as much of a concern in the U.S. as in Europe, where labor laws are different, Weisenfeld says. “Those become taken-for-granted assumptions. It’s not cultural. They’re not about people’s values. They’re about people’s taken-for-granted assumptions about the way things work.”

Wharton management professor Martine Haas has made a career of studying team interaction in large organizations, looking for factors in addition to culture that may lead to a team’s success or failure. “When you talk about global teams, most of the research is about cultural issues,

but there are a lot of [other interactions] that happens in global teams,” she says.

Haas has found that a mix of “cosmopolitans” and “locals” is a key to team success. She defines “locals” as team members on the ground who know a lot about the country they represent. “Cosmopolitans” are team members who have lived in several countries and may speak multiple languages. Having worked on projects in different parts of the world, cosmopolitans have a birds-eye view and may be able to see the global implications of a team’s actions. But only a local might be aware of what consumers in a particular country want from a new product, or understand the subtleties of a new environmental regulation the local country just put in place. “It’s good to have both of these on the team because they bring different things,” Haas says. “Teams that have both of these in them are most effective.”

Haas also identifies four sets of differences that can drive global team members apart: cultural, geographic, demographic and structural. Cultural barriers, discussed earlier, stem from a team member’s birthplace and background. Geographic barriers refer to the actual location where the team member resides. (These two can be different if, say, the team member is an American-born expat in charge of a company’s Beijing office.)

Demographic barriers refer to factors such as age, tenure and education level of a team member. Structural differences refer to a team member’s position in the company hierarchy or a particular business unit. “All these kinds of differences reduce the likelihood that you’re going to share knowledge,” says Haas.

Not all differences are created equal: Haas has found that structural differences play a stronger role than demographic ones, and geography plays a stronger role than culture. In fact, structural differences play a stronger role than either geography or culture. So managers from two different countries who work in the same company division could find it easier to share information than people from the same cultural background who work in two different departments or satellite offices. “The reason is that structure and geography have more powerful effects on how team members understand and

communicate about their tasks than demography and culture,” Haas says. “As a result, they can encounter more communication problems when they try to communicate across structural and geographic differences than across demographic and cultural ones.”

So what can managers and companies do to make global teams work better? Our experts offer a few ideas and suggestions:

Try to meet at least once face-to-face, says Weisenfeld. “There is evidence that when people have even just one face-to-face meeting, it makes virtual teams work much more smoothly.”

Choose team members carefully. Find the right balance of locals and cosmopolitans, Haas suggests. Don’t overlook soft skills such as interpersonal communication abilities, Rothbard adds. “Often the technical skills get prioritized very powerfully over teamwork skills,” she says.

Keep the team small if possible. “Teams optimally work most effectively when you have five to seven individuals,” says Rothbard. “As you get larger than that, it becomes more challenging. You need to be very careful as you start going above that number. You need to be clear that you are adding value. . . . I’m not saying you can never go above that number. You just need to make sure that you know there’s a tradeoff.”

Consider cross-cultural training. According to Reyes, best-practice companies “train in cross-cultural communication, project management, teamwork and stakeholder management” and they “provide guidelines and support for chartering teams, selecting communication and collaboration technologies, and building and maintaining trust in globally diverse settings.”

Be explicit upfront about how the team will operate, making no assumptions that some things should be obvious or understood. Bing worked with a team once that called a meeting and forgot to include one member on the email. The man thought he had been fired. The reality: Nobody had sent out an email list of who was on the team. “Who’s on the distribution list? How will we communicate with each other? What technologies will we use? Just establishing appropriate protocols is

important,” Bing says. “Come up with a team culture that says, ‘We all agree that this is how we’re going to work together.’”

Be conscious of time. That means not only time zones but expectations of how long tasks should take, how long meetings should be and when they are expected to start and finish. This is especially important if the team is composed of members from different cultures who have varying concepts of time, Weisenfeld remarks. If the meeting is at 10 o’clock, for example, team members from Germany could show up at nine while those from Brazil might not dial in until eleven. “If the meeting is one

hour, you can be sure that people will miss each other,” she says.

Consider how the team is organized.

Be aware of conflicting interests of team members. Reyes suggests forming sub-tasks to pull the group together and counteract the tendency to splinter along cultural or geographic lines. Teams are easier to manage if everyone is reporting to the same individual, Weisenfeld notes.

Don’t overload team members. Haas says her research has shown that a team’s effectiveness is compromised if its members are too overloaded with tasks. These can be tasks for the team itself or external projects that team members

have to complete in addition to their work on the team.

Give the team autonomy. Being autonomous is one of the key factors to a global team’s success, Haas has found. Teams that have no control over their budget, are beholden to outside interests or have little authority to make decisions about tasks and resources struggle to meet their goals. Without autonomy, Haas says, a global team’s scheduling efforts, cross-cultural dialogue and efforts to increase information-sharing could well go to waste. “How good is the team if they don’t have the ability to act on what they know?” ❖