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To Brexit or not to Brexit

An in-depth analysis of a highly complex negotiation

The United Kingdom's decision to leave the European Union is becoming a highly complex operation filled with financial, political and regulatory uncertainties. There are two main reasons for this generalized perplexity.

Firstly, nobody knows exactly what it means to become a "former member of the European Union" – that is, the **real consequences of a state leaving** and the effects that this decision will have on the EU.

Secondly, Brexit negotiations are taking place within the United Kingdom, in particular, inside the Conservative and Labour parties. There is no shared idea about what withdrawing from the EU really means. The best example of this dissonance is in **Theresa May's government and its chronic instability**, with intermittent cabinet resignations and constant threats of rebellion.

The more time goes by, the more members of Parliament from both parties are questioning the very idea of withdrawing from the EU. On the other side, EU institutions and member-state governments have demonstrated a high level of unity in their common task of **minimizing the negative consequences** of a historical decision that threatens to tear apart Europe's soul.

Since the Brexit clock started ticking, it has become obvious that the two-year **deadline to withdraw from the EU is insufficient** to approve all the necessary agreements that protect the United Kingdom's interests. These past months have only served to reach, in November 2018, basic withdrawal terms and elements that will regulate the transition period. But even this pact has not been approved by the UK Parliament and we have entered a critical stage of Brexit.

José M. de Areilza

José M. de Areilza has a double appointment as Professor in the Department of Law and in the Department of General Management and Strategy at ESADE. Since 2013, he has held the Jean Monnet Chair at ESADE, awarded by the European Commission.

His two areas of teaching and research are law and politics in the European Union and power and influence in organizations. He has published more than fifty academic articles and twenty book chapters. He is the author of the book *Power and Law in the European Union* (Civitas, 2014).

Prof. Areilza is also Secretary General of the Aspen Institute Spain, a partner of the Aspen Institute (United States), a non-partisan forum for values-based leadership and the exchange of ideas.

He has worked as an advisor to the Spanish Prime Minister on European and North American affairs. This year, he is a Visiting Professor at INSEAD Business School in France.

Three main scenarios

Negotiations between the United Kingdom and the European Union can still lead to **three potential scenarios:** a no-deal Brexit, a modification of the agreement reached in November 2018, or a second referendum aimed at stopping or ratifying Brexit.

The two latter options are the most likely (I believe with a 40% chance each) and they could lead to a **longer extension or cancellation** of Brexit negotiations in order to gain time.

The weakness of the Conservative Party explains the chaos in the final stretch of Brexit negotiations. Despite the ongoing "civil war," nobody in the Conservative Party rationally acknowledges that **Brexit is a disastrous business**. But the Labour Party is also contributing to the overall confusion: its leader, Jeremy Corbyn, doesn't prioritize European matters and hasn't clarified his position.

"The weakness of the Conservative Party explains the chaos in the final stretch of Brexit negotiations"

Scenario 1: No-deal Brexit

An exit without an agreement is a real possibility, with negative consequences for all involved. Although there is no majority in Parliament or in the Government in favor of this option, the **lack of consensus around alternative solutions** could lead to this accidental break.

On November 28, 2018, the Bank of England published a report on the **various Brexit scenarios** and their economic and financial consequences. In the event of a no-deal Brexit, the report predicted that the British pound and GDP would fall by 8%, which would translate into a larger negative impact than the 2008 economic crisis.

Scenario 2: Renegotiation and Norwegian model

Most members of the British Parliament **favor a soft version of Brexit** that would keep the country within the customs union and grant broad access to internal markets, if Brussels shows some flexibility and grants a time extension for negotiations.

Some members of May's government and certain members of Parliament favor the **Norwegian model as an alternative** to the agreement of November 2018. This could involve the United Kingdom joining the European Economic Area, together with Norway, Iceland, Switzerland and Liechtenstein.

Scenario 3: Second referendum

For the first time since the referendum in June 2016, it is now possible that the United Kingdom will rethink its exit from the European Union through a new referendum that would take into account the **potential costs of a no-deal Brexit** and a realistic analysis of the consequences of withdrawing with or without a deal.

There are **two ways to hold a second referendum**. The first would be for the British Government to ask European leaders for a one or two-year extension of the negotiation period stipulated in Article 50 of the Lisbon Treaty, which regulates the legal process for leaving the EU.

The second way is easier and arrived just in time, on December 10, 2018, as a result of the EU's Court of Justice interpretation of Article 50, which confirmed that a Member State is allowed to **withdraw its exit request unilaterally** before the exit takes place.

This interpretation of Article 50 shows that the EU's exit mechanism could be stopped and even reversed.

> "Since the Brexit clock started ticking, it has become obvious that the two-year deadline to withdraw from the EU is insufficient to approve all the necessary agreements that protect the United Kingdom's interests"

Positive brand experiences: The benefits of appealing to customers' senses

Brands must offer memorable experiences to customers if they want to differentiate themselves from their competitors

Our findings in the *Journal of Business Research* demonstrate how positive brand experiences come with many benefits: they increase customer satisfaction, boost affective commitment and enhance the quality of the relationship between customers and brands. They also strengthen brand equity – that is, the overall perception customers have of a brand's commercial value.

Building **favorable brand experiences** is even more crucial when selling services. Compared to products, services are intangible and heterogeneous, so offering memorable brand experiences is a more challenging task.

To test our hypothesis, we analyzed insights from more than 1,700 customers in one of the world's **key service-driven sectors:** the banking industry. We chose this industry because of its undermined reputation after the financial crisis – a reality that has forced banks to provide better customer experiences to regain trust.

Oriol Iglesias

Oriol Iglesias is an Associate Professor in the Marketing Department. His research has been published in top international academic journals such as *California Management Review, Journal of Business Ethics, Journal of Business Research* and *European Journal of Marketing*. His latest book is *Brand Desire: How to Create Consumer Involvement and Inspiration*, published by Bloomsbury.

Prof. Iglesias is member of the Scientific Committee of the Global Brand Conference and the Special Interest Group on Brand, Identity and Corporate Reputation of the Academy of Marketing. He is also member of the Editorial Board of the *Journal of Brand Management* and the Editorial Review Board of the *Journal of Product and Brand Management.*

Prof. Iglesias has consulted and/or developed custom in-company training for leading global firms in many different sectors, including Porsche, Audi, Volkswagen, Telefónica, HP, Nestlé, Sara Lee, Banco de Santander, PwC and Ogilvy.

Sensory brand experiences

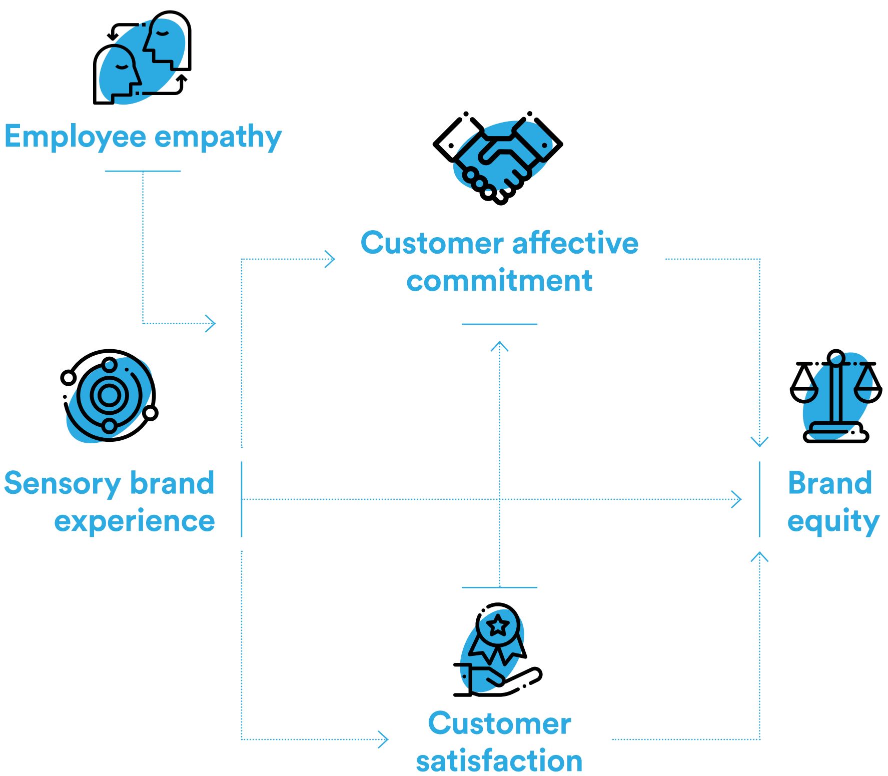
Brand experiences can be sensory, affective, intellectual and behavioral. However, we suggest that **sensory experiences are particularly relevant** in firms offering services to their customers, especially in the banking industry.

Have you recently walked into a bank and noticed a pleasant smell or encountered smart designs? As part of their renewed brand strategy, many banks are introducing **superior sensory brand experiences** in their branches to connect with their customers' senses.

For example, Santander Bank is opening new offices with an innovative design that includes **smart lightning and visual and auditory systems** to improve the customer's experience and comfort. Others, including Lloyds Bank, National Australia Bank and China Merchants Bank, are developing their own fragrances and perfumes to enhance their customers' sensory experiences.

These sensory experiences have proven to be very effective at **improving brand equity** in areas such as catering services and the airline industry, but our research demonstrates that their effect, while also positive, is not as direct in the banking sector.

We show that for these sensory experiences to improve a **consumer's overall perception of a brand**, two additional triggers are necessary: customer satisfaction and affective commitment.



"Building favorable brand experiences is even more crucial when selling services. Compared to products, services are intangible and heterogeneous, so offering memorable brand experiences is a more challenging task"

Customer satisfaction and affective commitment

Our research shows that if brands in the banking sector want to **turn sensory experiences** into improved brand equity, they must develop customer satisfaction.

Customer satisfaction is the **holy grail of brands** because engaged customers are less sensitive to price variations and isolated episodes of poor brand performance.

According to our findings, once customers are satisfied, this positive perception boosts their affective commitment to the brand. This affective closeness is a **highly desired outcome for companies** because when customers affectively commit to a brand, they are more likely to forgive occasional service failures and blame such lapses on external factors.

This relationship between a **customer's level of satisfaction** and his affective commitment are the two key triggers that help to build brand equity.

Employees and empathy

Employees who interact with customers are the key interface for successful **customer-brand interactions** and can make or break the brand. In essence, when employees are empathic – when they understand customer needs and desires and deliver experiences accordingly – they can become the key driver of customer satisfaction.

“ Brand experiences can be sensory, affective, intellectual and behavioral. However, we suggest that sensory experiences are particularly relevant in firms offering services to their customers, especially in the banking industry ”

Our research proves a finding that may seem counterintuitive. We demonstrate that the higher the **levels of empathy employees** have when interacting with customers, the lower the impact of sensory brand experiences on customer satisfaction.

In other words, if brands want to **boost customer satisfaction**, they should remember that when employee empathy is high, sensory brand experiences become less relevant.

From the opposite perspective, when employee empathy levels are low, **positive sensory brand experiences** become more relevant and have a higher impact on customer satisfaction. In short, sensory experiences can help to compensate for low levels of employee empathy.

An ecosystem for sensory cues

Brands in the banking industry should leverage the potential of music and fragrances to **build an ecosystem of sensory cues** to create a more pleasant atmosphere and experience. These sensory cues, such as signature fragrances and music lists, should be designed in line with the brand identity and aimed at boosting brand equity.

The presence of sensory cues is important because even though employees have a crucial role in achieving **higher customer satisfaction**, their performance cannot be consistent across the board.

Managers should understand that designing a superior sensory brand experience can be an **extremely valuable tool** to compensate for the fluctuation of employee empathy levels and improve a company's overall service levels.

> "Employees who interact with customers are the key interface for successful customer-brand interactions and can make or break the brand. In essence, when employees are empathic – when they understand customer needs and desires and deliver experiences accordingly – they can become the key driver of customer satisfaction"

The dark side of business models

Four elements to promote transformational business models for society

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Business models can transform social reality – sometimes to an extreme. Even when business models are designed to improve economic, environmental and social value, our research in the *Journal of Business Ethics* suggests that such transformations can be either positive or negative (or both).

While most studies have focused primarily on the positive transformational **impacts of business models**, scholars have only recently begun to examine the negative ones.

Our research suggests that there are **two categories of business models** with pernicious effects:

1. Business models for oppression or depletion

Business models for **oppression or depletion** are designed to strengthen patterns, norms and power structures that marginalize the poor, or to deplete and exploit particular communities or resources.

This category includes firms that extract and deplete scarce natural resources such as forests, water and iron for aluminum, and precious or rare resources such as "blood diamonds" in various parts of the world.

These **business models offer high profits** and seem to constitute important elements of the supply chain of well-known industries. But even if some of these elements are illegal, they are unlikely to be detected.

Ignasi Martí

Ignasi Martí Lanuza is a Professor in the Department of Social Sciences and the Director of the Institute for Social Innovation at ESADE. He has been a Visiting Professor at ESADE since 2016. He was previously a Professor and Head of the Strategy and Organization Department at Emlyon Business School in France, where he also directed the OCE Research Center.

Prof. Martí earned his PhD in Management at IESE Business School and his *Habilitation à la Directions des Recherches* at Paris Dauphine University. Before that, he graduated from the University of Barcelona with degrees in philosophy and economics. He was also a visiting scholar at Saïd Business School at the University of Oxford.

Prof. Martí's research findings have been published in top international journals, including the *Academy of Management Journal, Organization Studies, Journal of Business Venturing, Entrepreneurship Theory and Practice, Journal of Business Ethics* and *Journal of Management Inquiry.*

In our fieldwork in Buenos Aires, we encountered first-hand the human consequences of **business models for oppression**. Take, for example, Ariel, a strong 21-year-old man from Bolivia. Like many others in his hometown, he was tricked into slavery by a fake ad on a local radio station promising a job offer in Buenos Aires. He was forced to work more than 15 hours per day and was repeatedly beaten violently. It took him about two years to escape.

Despite being universally condemned, various forms of slavery remain a viable and growing management practice for many enterprises.

2. Exclusionary business models

Another **pernicious business model** is based on exclusion. Business models designed to address specific problems can inadvertently exclude some of the stakeholders they aim to positively impact.

One example is the soccer ball industry in Pakistan. Despite the industry's well-intentioned and orchestrated attempts to eliminate the bane of child labor, these efforts have reinforced situations of deprivation—the very problems they set out to address. The consequence was that women stitchers had to drop out of the workforce, plunging their families into deeper poverty.

A large number of **microcredit-based programs** have also failed to reach out to the poorest. In our research, we encountered some of these exclusionary effects. One example is the case of Latifa, a young lady from Bangladesh who was deserted by her husband and was living precariously with her children. When she tried to contact credit officers, she was told that a microcredit was not for her because it would be difficult for her to repay the loan on time.

These models, with their strict repayment dates, rigid savings schemes and inflexible rules, create emotional, cognitive and behavioral barriers for women like Latifa, who are afraid to ask for loans.

> "While most studies have focused primarily on the positive transformational impacts of business models, scholars have only recently begun to examine the negative ones"

Morally questionable models

In the case of business models for oppression or depletion, the impacts are intended and hence morally unacceptable to most.

With exclusionary business models, however, the **negative impacts are often unexpected** and unintended. Therefore, these impacts can often be attributed to a limited understanding of the nature of the problem being addressed or a failure to further explore it. As a result, such business models are also morally questionable endeavors.

Four elements to promote transformational business models

We argue that the following four elements can contribute to transformational business models designed to tackle society's greatest challenges:

1. Participatory forms of architecture

One element that can contribute to transformational business models is **engaging in co-creation** to embrace stakeholders other than the usual ones. Engaging stakeholders is a demanding task because major challenges involve a diverse range of actors who are likely to hold opposing perspectives.

Building a participatory architecture means setting up **spaces for negotiation and interaction** among stakeholders with different power positions and resources. Organizations that want to implement positive transformational business models should embrace this task and make it a central challenge.

"In the case of business models for oppression or depletion, the impacts are intended and hence morally unacceptable to most"

2. Multivocational inscriptions

It is essential to **combine opposing perspectives** in order to better understand the nature of the existing problems and how to tackle them.

A study on climate change provided an example of a failure to develop multivocational inscriptions. The study demonstrated that the Kyoto Protocol failed precisely because it offered a single way of perceiving the problem of climate change rather that combining opposing perspectives to get a broader vision of the problem.

3. Scaffolding

A third element in designing business models for positive transformation is scaffolding. This is the **practice of building structures** adapted to the local social system when implementing solutions to major challenges.

This approach makes it necessary to focus on how local realities make alternative realities unthinkable, even for those who are likely to benefit from change. For instance, when a woman we met in Bangladesh was asked by a credit officer to go to the market to sell her products, she responded with shock: “How can I go to the market? I’m a woman!”

Such words and reactions show how, despite efforts to create platforms to empower men and women, the **existing social conventions** are so deeply ingrained that it is difficult for people to see any alternatives for themselves.

> “The Kyoto Protocol failed precisely because it offered a single way of perceiving the problem of climate change rather that combining opposing perspectives”

4. Proximity

A fourth element to be considered when implementing business models to tackle major challenges is proximity, understood as a caring concern for the "other." When managers and leaders **fail to adopt ethical concern** for others, the consequences might explain firms' unwillingness to contribute to the advancement of society.

Managers are more likely to care about the "other" when they go out into the world and observe the actual experiences of, for instance, women living in extreme poverty, schoolteachers and children, health workers in war-torn regions, and smallholder farmers.

Seeing first-hand how these people improvise their way through daily life can **motivate leaders to take this reality seriously** into account when implementing business models that can transform society for the better.

"Managers are more likely to care about the "other" when they go out into the world"

How to measure performance in public-sector organizations

Measuring performance in public-sector organizations has many benefits. It allows managers to set up mechanisms to evaluate, control, budget, motivate, promote, celebrate and improve their strategic decision-making.

Our research in the *International Journal of Public Sector Management* identifies five core uses and benefits of setting up **performance measurement systems** in public-sector organizations:

1. Prognosis

One of the **main benefits of measuring performance** in public-sector organizations is the prognostic capacity of performance indicators. Prognostic measurement tools allow public organizations to improve their productivity and mission effectiveness. They also provide data that make it possible to specify what decisions need to be made to better align strategic activities.

2. Diagnosis

Diagnosis involves identifying problems and attributing blame. Performance measurement systems that target diagnosis can **help managers identify best practices** and provide rational evidence for selecting what process improvements would be most beneficial to make first.

TAMYKO YSA

Tamyko Ysa is a Professor in the Department of Strategy and General Management, a former Vice Dean of Research at ESADE and the Principal Researcher of the Research Group for Leadership and Innovation in Public Management (GLIGP). Her areas of interest are the management of partnerships and their impact on the creation of public value; the design, implementation and evaluation of public policies; and the relations between companies and governments.

Prof. Ysa has acted as a consultant to various public administrations, including several departments of the Catalan Government, the Barcelona City Council and County Council, and a large number of local governments and public companies.

She has been a Visiting Doctoral Fellow at the LSE London Urban and Metropolitan Research Institute (London School of Economics) and at the Alfred Taubman Center for State and Local Government (Kennedy School of Government, Harvard University, USA). She has obtained scholarships from entities such as the Fulbright Commission, the Public Administration School of Catalonia and the Jaume Bofill Foundation.

3. Motivation

Managers in the public sector can use performance **monitoring systems that track motivation** as a call to arms for improving situations or taking corrective action. This type of monitoring can also facilitate the scorekeeping of service providers, thus enhancing competition among them. Performance indicators targeting motivation also improve judgment and decision-making.

4. Legitimation

Performance measurement systems that target legitimation are **used for compliance purposes** and to conform with the law. This type of performance monitoring in public-sector organizations can offer credibility with internal and external audiences and implementation as an industry norm.

5. Learning and improvement

Setting up performance indicators that measure learning and improvement levels can be a useful tool for both benchmarking and **increasing learning capacity** in order to implement better actions in the future.

Performance measurement systems

1. Prognosis	2. Diagnosis	3. Motivation	4. Legitimation	5. Learning and improvement
· Improve productivity and mission effectiveness · Align strategic activities to strategic plans	· Provide a rational basis for selecting what process improvements to make first · Help identify best practices	· Support better judgment and decisions · Enhance competition among service providers	· The law requires it · It is an industry norm	· Help in benchmarking · Help learning in order to implement better actions in the future

VICENTA SIERRA

Vicenta Sierra is a Professor in the Department of Operations, Innovation and Data Sciences. She graduated summa cum laude with a PhD in psychology from the University of Barcelona and did her undergraduate studies in statistics at the Polytechnic University of Catalonia.

Her major fields of specialization are research methods, advanced statistics and psychometrics. Prof. Sierra has published her research in numerous peer-reviewed scientific journals. Her primary research emphasis is based on her academic training in psychology, experimental design and behavioral research methods.

Her latest research has appeared in journals such as *Journal of Business Ethics*, *Journal of Public Administration Research and Theory*, *Public Administration*, *Journal of Cleaner Production*, *Public Administration*, *Public Policy & Management* and *Supply Chain Management*.

Top-ranked performance choices

Which performance indicators are the preferred choice in public organizations? **To measure their performance preferences,** we divided participants into different groups with public and private-sector experience.

Our results show that participants with public-sector experience preferred **performance indicators focused on prognosis.** Public-sector-driven participants were mostly interested in improving productivity and mission effectiveness, as well as aligning strategic activities to strategic plans.

One would expect that **participants with a market-managerial logic** would also favor performance indicators that track productivity and mission effectiveness. However, our findings show an unexpected mixture.

Instead of choosing productivity and effectiveness as their preferred option, participants with private-sector experience preferred **performance indicators focused on diagnosis.** Their preferred choices were performance indicators that helped them identify best practices and provided rational evidence to help determine what process improvements to make first.

“Public-sector-driven participants were mostly interested in improving productivity and mission effectiveness”

Competition and learning

Our findings reveal that public-sector participants were less interested than their private-sector peers in **measuring performance to enhance competition.** This difference makes intuitive sense, given the central role of competition in the private sector.

Learning was also rated differently among participants. Compared to their private-sector peers, public-sector participants expressed lower interest in implementing **performance indicators to measure learning progress.** This low score could be due to the public sector's stronger attention to accountability, with priority given to other actions such as media attention on public-sector performance rather than learning for improvement.

Surprisingly, like their market-driven peers, participants with a public-sector logic rated legitimation at the bottom of the ranking.

"Our findings reveal that public-sector participants were less interested than their private-sector peers in measuring performance to enhance competition"

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